HOW TO IMPROVE YOUR CREDIT SCORE

i-SCORE

MYCREDITINFO BY RAM CREDIT INFO

A RAMCI E-Book Production

Free of Charge. Please share freely!

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RAM Credit Information Sdn. Bhd. (532271-T)
No.17-19 & 19-9, 9th Floor, The Boulevard, Lingkaran Syed Putra,
59200 Kuala Lumpur
Tel: 03-2615 1100 Fax:03-2284 8808

Web: www.mycreditinfo.com.my Email: info@mycreditinfo.com.my

CONTENT GUIDE

FOREWORD

Financial management involving individuals are being increasingly challenged to deliver. Millennials (also known as "Generation Y") are the largest working generation in Malaysia and they are shaping the economy & future. With increasing professional success and growing income, they have more and more purchasing power. While banks offerings are largely geared to the needs of millennials, the financial management of this generation requires more attention. Based on AIF, 2015 study, 70% only pays minimum credit card bills & 45% did not pay on time. Most have long term debts more than a year due to buying a car.

The 2016 RAM Credit Information (RAMCI) study found that 64% of consumers have never viewed their credit report while another 8% were unsure if they have viewed it. Worryingly, 56% did not know the function of a credit score and the impact it could have on their credit applications.

It is now well recognized that the essential pre-condition for financial improvement is in the delivery of financial education. RAMCI is keen to help in establishing effective financial management thoughts within the framework of an environment that promotes balanced budgets, investment, savings including retirement and key spending habits.

The 8 chapters of ‘How to Improve Your Credit Score’ are based on the practical experience of building an individual credit score. They encompass the key areas of credit score, which are new credit applications, payment history, credit limit utilization, length of credit history and legal history trace. Further, we have included in this book on financial planning, smart spending, building wealth, loan borrowings and debts. We hope that this will contribute to your knowledge base of approaches and best practices in financial management.

To Your Success,
Dawn Lai
CEO

1.0 DEFINING CREDIT SCORE

A credit score is defined as a statistical number that calculates a consumer's creditworthiness based on credit history. The credit lenders use credit scores to evaluate the probability that consumers will likely to repay their debts.

In other words, credit scores are a tool used by lenders to guide whether you are qualified or not for a certain credit card, loan, mortgage, or service.

By using the information on your credit report and any additional information you supplied as part of your application, lenders will use a mathematical model to evaluate a score that represents your credit history.

This will help to specify what kind of borrower you are, and how possible it is that you will be able for your repayments.

In addition, your credit score appears in the form of a three-digit number generated by the algorithm using the information on your credit history.

It is designed to predict risk, specifically, the likelihood that you will become seriously delinquent on your credit responsibilities in the 24 months after the scoring.

The three-digit number, typically between 300 and 850 is representing your credit risk, or the likelihood you will pay your bills on time. A credit score is calculated based on your credit repayment and history of your credit profile.

The reason most lenders use credit scores is to assist them in prediction how likely you are to pay back a loan on time.

1.1. HOW CREDIT SCORE IS SELECTED?

Consumers can achieve high scores by retaining a long and good history of paying their bills on time, as well as keeping their debt low.

Credit scores play an important role in the lender's decision to offer credit. For instance, those with credit scores below 640 are normally considered to be subprime borrowers.

Lending institutions will often charge interest on subprime mortgages at a higher rate than the conventional mortgage in order to compensate themselves for carrying more risk.

Also, they may require a short-term loan repayment term or a co-signer for borrowers with a low credit score.

On the contrary, a credit score of 700 or above is usually considered good and may result in a borrower receiving lower interest rates, resulting in them having to pay less money on interest over the life of the loan.

A person's credit score may also regulate the size of an initial deposit required to obtain a smart phone, cable service, utilities, or even to rent an apartment.

The lenders often review borrowers' scores, particularly when deciding whether to change an interest rate or credit limit on a credit card.

Whilst every creditor defines its own ranges for credit scores (for example, many lenders think anything over 720 is excellent), here is the average score range:

- Excellent : 750 and above
- Good : 550 to 699
- Fair : 450 to 549
- Weak : 449 and below

1.2. WILL HIGHER SCORE RESULTS IN LOWER RISK?

Throughout your life, the credit score will play a key role in the financial products that you want to carry out.

For instance, when you are applying for a credit card or mortgage, it will determine whether your application will be approved and what interest rate you will end up paying.

People with higher scores are often seen as lower risk, meaning that lenders are more likely to give them credit.

It is good to remember that every lender follows a different policy for credit review. So, in case you don't meet the criteria of one lender, you may still be able to get credit from another lender and so on.

However, it is also important to know if your credit is rejected, as you should be able to find out why you are turned down before making another application.

You should also be aware that too many credit applications in a short period of time may be viewed negatively by lenders.

1.3 WHAT KEY FACTORS AFFECT YOUR CREDIT SCORE?

Your credit score is not only based on credit repayment but other key factors which can cause your credit score to change, including:

- Information and data on your credit report such as how much is your available credit you are using and your total debts.
- Your history of credit account payments
- Credit searches (when a credit application is made)
- Public records (electoral roll and court judgments)

Key factors include payment history where one can see whether a person pays his commitments on time, whilst credit limit utilization takes into account total amount owed and the percentage of credit available to a person that is currently being used.

The length of credit history with long good credit repayment record is important to gauge if a person is considered less risky, as there is more data to determine the payment history.

Types of credit used shows if a person has a mix of installment credit, such as car loans or mortgage loans, and revolving credit such as credit cards.

Factors to gauge new credit, include the number of new accounts a person has, new accounts they have applied for recently, resulting in several credit inquiries, and when the most recent account was opened. Typically, the following percentage may be allocated to generate a credit score:

- Payment History - 35%
  Your account payment information, including any delinquencies and public records.

- Legal History Trace - 30%
  The main issue that discourages many from filing bankruptcy is the detrimental effect it has on their credit history. Until you have been discharged from the Malaysian Department of Insolvency the bankruptcy will continue to stay on a credit report

  As for legal cases, any court filing with a court case number will be shown under the section 'Legal Action'. This record will remain on your credit report for as long as the case is still ongoing or for a period of two years after its settlement date.

- Length of Credit History - 15%
  How long ago you have opened accounts and the time since account activity.

- Credit Limit Utilization - 10%
  The outstanding balance used from your credit limit on your revolving facilities such as credit cards, overdraft facilities; it takes into consideration whether do you utilise up to the maximum of your credit limit sometimes or most of the times.

- New Credit Application - 10%
  Your pursuit of new credit, including credit inquiries and number of recently opened accounts.

Furthermore, your income will be taken in as a debt service ratio calculation to determine your eligibility to pay back the loan.

Keep in mind there is no “one” credit score. It is important to know that you do not have just “one” credit score and there are many credit scores available to you as well as to credit providers & lenders.

Any credit score depends on the data used to calculate it, and may differ depending on the scoring model, the source of your credit history, the type of loan product, and even the day when it was calculated.

Usually, a higher score makes it easier to qualify for a loan and may result in a better interest rate.

In addition, there are also other several factors that might affect a credit score, and it’s important to note that lenders view these factors in different ways.

Here are some examples of those factors:

- Missing payments or making late payments
- Having home foreclosures
- Going over your credit limit on credit cards
- Receiving collection notices of demand
- Having a poor debt-to-credit ratio
- Declaring bankruptcy
- Applying for credit too frequently in a short amount of time
- Receiving legal letters or summons for not paying back the loan
- Revolving account with many credit cards

1.4 DIFFERENT SCORE, DIFFERENT IMPACT

How much does a specific credit profile change affect a credit score? The answer is usually “it depends” and for good reasons.

In the development of Credit scores, it doesn’t reveal the exact point of deductions. The weight of any credit activities can also vary for different credit histories.

Within scoring models, there is more than one formula used to calculate a score, and each formula is designed for a category of consumers with similar credit profiles.

The information in your credit report determines which formula is used.

If you are new to credit, for instance, the scoring model will put you into a category for people with young credit histories and use a scoring formula specific to that group.

Such groups are called scorecards. Within that group, recent inquiries may cost more points than they would for a different group.

1.5 HOW DO MY ACTIONS IMPACT MY CREDIT SCORE?

Regardless of the financial milestones you are reaching, when it comes to financial progress and credit, it's important to understand the factors that may impact your credit score.

Consider the following:

- Does having multiple loans affect your credibility?

  Yes, it does. If you have a variety of loans, it is quite likely you will get a higher credit score. Having a mix of credit types is expected from people with longer credit histories, and helps you show you are an experienced borrower.

  However, this is useless if you have bad repayment history as this would mean a higher risk of bad debts.

  If you cannot juggle multiple loans, you shouldn't apply for more. Having multiple loans isn't necessarily bad. It is only bad if you can't afford them.

- How many credit accounts or “tradelines” do you have?

  Credit scoring models look at the mix of different types of credit you have, credit cards, installment loans, mortgages, and store accounts. If you have too many different credit accounts, it could affect your credit score.

- How many new credit accounts have you opened?

  Be mindful of opening too many accounts at once. Scoring models look at how many new accounts you have as well as how many new accounts you have applied for recently. This may indicate you are planning on taking on lots of new debt which could indicate a greater credit risk.

- How old are your credit accounts?

  In general, creditors and lenders like to see that you have been able to properly handle credit accounts over a period of time.

- Do you have enough different types of credit accounts?

  Creditors like to see that you are able to handle multiple accounts for different types of credits and the credit score reflects this.

- Are your balances too high compared to your total available credit limit?

  Creditors and lenders prefer to see a lower ratio of how much debt you are carrying compared with how much available credit you have on a particular account.

- Do you have any liens, summons, demand letters, foreclosures, bankruptcies, short sales, or delinquencies that have been reported to creditors?

  Having this type of information on your credit history may have a big impact on your credit score. If you have gone through a reversal of fortune and had to file for bankruptcy or completed a foreclosure, your credit score will reflect this negative information for several years.

1.6 THE DIFFERENCE BETWEEN CREDIT REPORT AND CREDIT SCORE

1.6.1 Credit Report

Your credit report is almost like a report card for your debt history.

It consists of records such as the number of loans you have; the type of loans (mortgages, hire purchase car loans, credit cards, bills) and loan applications pending.

It will determine whether you get that house you've been dreaming of or that loan which will dictate the survival of your business.

The interest rates the bank decides to offer you will also be based on this report.

For example, a Bank Negara CCRIS report on your records all past information on the loan amount, interest, and charges outstanding on each loan.

Therefore, you should pay your debts promptly as some banks may reject upcoming applications if you miss out on repayments by 2 months or more.

Besides, depending on the bank's requirements, they may reject your loan application if you have a debt ratio exceeds 50%.

1.6.2 Credit Score

Your credit score is the number generated from this report, along with other data that banks use to subjectively evaluate a loan application.

A well-known method used to measure this is the Experian FICO score which rates applicants anywhere from 300 to 850 points (the higher the better).

However, it is likely that many banks in Malaysia will also use their own internal method of measuring and determining your credit score.

What this means is that your chances of getting your loan approved may vary depending on which financial institution you choose to apply.

1.7 WHERE CAN I GET MY CREDIT SCORE?

Credit scores are calculated based on your credit history data.

The score that is reported about you in the credit reports of three large consumer reporting companies may be different, your credit score from each of the companies will be different.

Lenders also may use slightly different credit scores for different types of loans.

- Use a credit score service.
  You can buy a score directly from the credit reporting companies. Some credit score sources provide an "educational" credit score, instead of score that a lender would use.

  For most people, an educational score will be close to the score lenders use and can be helpful for consumers. But the scores can be quite different for some.

1.8 HOW CAN I OBTAIN MY CREDIT REPORT?

1.8.1 RAM Credit Information (RAMCI)

RAMCI backed by RAM Holdings Berhad, operates a credit-information bureau in Malaysia.

RAMCI opened its new market division to serve the individual consumers in 2015 with the introduction of three credit reports, using its own credit score, i-Score.

A three-digit number calculated from your data-rich credit report, a higher i-Score indicates lower credit risks to lenders.

The i-Score is co-developed by RAMCI with global information services company, Experian PLC.

The tool is designed for financial institutions, business corporations and consumers. It provides a comprehensive credit report in ranking consumers, business partners and potential investors for credit risk.

RAMCI scores for individuals as well as for corporates. It used data from banking and non-banking of the data subject to develop a score.

An automated credit decision analytics tool that promotes transparency and benchmarking, the i-Score also helps provide trust and confidence to local and foreign investors to invest in Malaysia.

1.8.2 Bank Negara – Credit Bureau

You can request access to your Central Credit Reference Information System (CCRIS). The credit report can be obtained from Bank Negara Malaysia.

You can only request for your own credit report. For an organisation or a deceased person, this request can be made by a person authorised by the person from the business or by the court (deceased).

You can get your credit report for free on the same day you request it. All you have to do is bring your MyKad and other necessary documents that can verify your identity (e.g. driver's license or passport).

1.8.3 Credit Bureau Malaysia

Credit Bureau began operations by helping many SMEs get access to better financing since 2008.

When the Credit Reporting Act 2010 was introduced, Credit Bureau Malaysia was introduced and expanded its market to include helping individuals.

Credit Bureau Malaysia collects and compiles credit information from various sources. Then they process this data and disseminate it to financial institutions and other credit grantors.

Credit Bureau Malaysia is jointly owned by Credit Guarantee Corporation Malaysia, Dun & Bradstreet Malaysia, and the Association of Banks Malaysia.

You can get an Individual Credit Report (ICR) from Credit Bureau Malaysia to get an overview of your personal information, related business and companies information, MySCORE assessment, dishonoured cheque summary, past inquiries, credit information, non-bank credit information.

1.8.4 CTOS Data System

CTOS is a private company which provides credit reporting and used by financial institutions to determine an applicant's creditworthiness.

Usually, financial institutions use more than one credit report to determine an applicant's credit health and CTOS is also known to be widely used in Malaysia.

2.0 THE ESSENTIALS OF RAMCI

RAM Credit Information (RAMCI), a leading Credit Reporting Agency licensed under the purview of the Ministry of Finance Malaysia, is relied upon for credit reports and scores by some of the most renowned global and local brands as well as Financial Institutions, SME and Government Agencies.

RAMCI also are certified to ISO/IEC 27001:2013, an international ISO standard for Information Security Management System.

For the past years, RAMCI operates a credit information bureau in Malaysia that provides credit information and advanced scores/ratings to business corporations, financial institutions, and legal as well as accounting firms as a basis for credit sales, marketing, financial, purchasing and general management decisions.

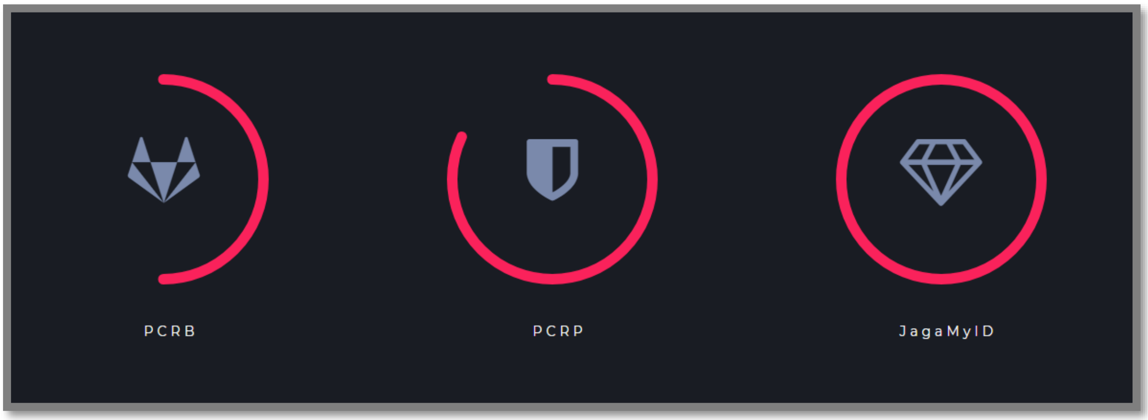
The objective is to provide comprehensive and credible information on the individual, companies, and businesses, therefore, shorten the processing time in making credit decisions and enhancing better access to financing for good credit profile individuals or corporate.

2.1 WHY USE RAMCI?

- Easy to read credit reports and personalised i-SCORE (credit score) insights.
- Tools and tips to help you understand your credit score
- One-stop credit monitoring and identity protection solution
- See how lenders evaluate your creditworthiness and increase your chances of getting a loan

- Your credit report includes information of i-SCORE, CCRIS, PTPTN, ANGKASA's SPGA, legal summons (if any), default payments, non-banking information and many more.

2.2 THREE TYPES OF REPORTS AVAILABLE FOR RAMCI:



2.2.1 PERSONAL CREDIT REPORT BASIC (PCRB)

Making sure your credit information is up to date is the best advice RAMCI can give.

Their goal is to always provide the very best resources so you can take control of your financial future such as planning to buy your dream home or get your first credit card.

As RAMCI self-checked user, you will get two complimentary PCRB every year in January and July.

It is important to check your credit report to make sure the information is accurate and up-to-date because your credit score is a summarise from the information in your credit report.

PCRB consists of the following basic information:

- Personal Information
  Such as your name, identity card info (new and old identification number), as well as your address.

- Business Interests (if any)
  Company name, company registration number, position in the company, date appointed, business expiry date, and shareholding and percentage (%) of the Share.

- Legal and Bankruptcy Information (if any)
  Legal or bankruptcy proceedings captured by RAMCI from public sources.

- Trade Reference (Non-Banking Default Information)
  Credit records from non-banking industries.

- When someone asked about you
  RAMCI will inform you of the inquiries made on you from the banks or other credit grantors. This will help early detection of identity fraud if someone tries to use your identity for credit fraud.

2.2.2 PERSONAL CREDIT REPORT PLUS (PCRP)

PCRP takes control of your financial situation by knowing how your credit report works and how lenders or the banks use it.

RAMCI make it easy to understand and improve your credit status. RAMCI personal credit report is more than a report, it is your credit management tools to financial empowerment.

PCRP provides once stop credit information such as:

- RAMCI i-Score (Credit Score)
- Banking Information (CCRIS)
- Skim Potongan Gaji ANGKASA (SPGA)
- PTPTN
- Trade References (Non-Banking Info)
- Litigation History and more

PCRP consists of the following information:

- ***Personal information + i-SCORE***
  Your name, identity card info, address, and your i-SCORE

- ***Shareholding / Directorships and Business Interests***
  Your business involvement as director/shareholder / owner/partner of companies/businesses as available in RAMCI databank.

  Also, if there is any previous known business interest.

- ***Banking credit information***
  - Your credit facilities with any participating banks/financial institutions in Bank Negara Malaysia's CCRIS.

  - Credit facility taken either directly by you, jointly or obtained by sole proprietorship in which you are the owner.

  - Name of banks or financial institution which disbursed your credit facility, branch of the financial institution which disbursed your credit facility, and branch of the financial institution where your credit facility was obtained.

  - Total credit limit, outstanding balance amount of your credit facility and date when your total outstanding was last reported the banks or financial institutions.

  - Type of collateral or security pledged for the credit facility.

  - Frequency of your payments for each facility, for instance monthly or weekly.

  - Approved credit applications made over the last 12 months with the participating CCRIS members.

  - Any of your credit facilities that are under special monitoring by the banks or financial institutions under Special Attention Accounts.

Other than the above information, PCRP also consists of ***Skim Potongan Gaji ANGKASA (SPGA)*** credit information which provides you monthly salary deduction information as well as pending deduction and payment history.

- ***Legal and Bankruptcy Information***
  Legal or bankruptcy proceedings captured by RAMCI from public sources.

- ***Trade Reference (Non-Banking Information)***
  Credit records from non-banking industries.

- ***When enquires are made from other parties on your credit score & information***
  RAMCI will inform you of the inquiries made on you from the banks or other credit grantors. This will help early detection of identity fraud if someone tries to use your identity for credit fraud.

2.2.2.1 HOW TO READ PCRP REPORT?

RAM CREDIT INFO

SAMPLE REPORT

STRICTLY CONFIDENTIAL

Report Date	:	25 Aug 2017
PCRP No.	:	115972561
Report From	:	www.mycreditinfo.com.my

Personal Credit Report PLUS (PCRP)

PERSONAL INFORMATION	
Name of Subject	LAM XXXX MING
I/C No. (New)	7607XX-08-896X
I/C No. (Old) / Passport No. / Other ID	A1234567
Address	XX, JALAN PUTERI, TAMAN XXXX PUTERI, 47170 KUALA LUMPUR

i-SCORE

CREDIT SCORE

NOTE: The i-SCORE is a credit score, which is a numeric representation of an individual's credit worthiness, based on prevailing information available on the credit files at the time of scoring. The majority of credit grantors use some sort of credit scoring model to help predict what kind of credit risk you may be. Other factors, such as your salary and length of employment, may also be considered by credit grantors when you apply for a loan. As a risk assessment tool, i-SCORE does not provide any conclusive, evaluation or credit decisions for credit grantors.

i-SCORE	361											
Risk Grade	Higher Risk	**WEAK**			FAIR		GOOD		STRONG			Lower Risk
		1	**2**	3	4	5	6	7	8	9	10	
Key Contributing Factors (Why the Score is not Higher?)	• Time Since Most Recent Delinquency • Legal History Trace											

Credit Score & Risk Grade

i-SCORE	Risk Grade
<360	1
361-420	2
421-460	3
461-540	4
541-580	5
581-620	6
621-660	7
661-700	8
701-740	9
>740	10

Boosting Your Credit Score –

Your credit score change when new information is reported by your creditors. So your scores will improve over time when you manage your credit responsibly. Here are some general ways to improve your credit score:

- ✓ Pay your bills on time
- ✓ Do not have any overdue accounts or information such as bankruptcy and legal action on your credit report
- ✓ Keep balances low on credit cards
- ✓ Apply for and open new credit accounts only when you need them
- ✓ Check your credit report regularly for accuracy
- ✓ If you have missed payments, get current and stay current
- ✓ Pay off debt rather than moving it between credit cards

Improving Your Credit Score Can Help You:

- ✓ Lower your interest rates
- ✓ Speed up credit application approvals
- ✓ Reduce deposits required by Telcos, utilities, etc.
- ✓ Get better offers for credit card, housing loan, car loan, mortgage, etc.

RAM Credit Information Sdn Bhd (532271-T) is certified to ISO/IEC 27001:2013, Cert. No. ISM 00290

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RESTRICTED

Page **1** of **6**

The first section is a summary pertaining yourself which consists of information on your address, full name, and identification.

A credit score is a three-digit number which is rank by your probability of default in paying back your loan. It comes in four bands, which is weak, fair, good and strong.

The score rank works by the higher the three-digit numbers, the better your score.

The score will come with key contributing factors on why the score has been scored as such. In this way, you can improve your score by taking notes in the report what has dragged your score down.

In the report also provide you tools and ways on how to boost your credit score, what you should do and recommendation action.

RAM
CREDIT INFO

SAMPLE REPORT

STRICTLY CONFIDENTIAL

Report Date	:	25 Aug 2017
PCRP No.	:	115972561
Report From	:	www.mycreditinfo.com.my

Personal Credit Report PLUS (PCRP)

BANKING CREDIT INFORMATION

Note: The following information has been extracted from Bank Negara Malaysia. The information is confidential and shall not be disclosed to any other person. We do not warrant as to its accuracy, correctness or completeness. If there is any inconsistency, inaccuracies or missing details or information, please contact RAMCI Consumer Support Department for assistance.

Subject Status

Warning Remark	NIL

No.	Approval Date / R&R	Status	Capacity	Lender	Branch Code	Facility	Total Outstanding Balance (RM)	Date Balance Updated	Limit / Instalment Amount (RM)	Principal Repayment Term	Collateral Type	Instalment In Arrears for Last 12 Months												Legal Status	Date Status Updated
												2017											2016		
												Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug		
CREDIT ACCOUNTS (Including Subject's own/ joint/ sole-proprietor/ partnership accounts)																									
1	06/08/2015		OWN	OCBC	14028				50,000.00																
		OUTSTANDING				CREDIT CARD	23,090.00	31/07/2017		MONTHLY	CLEAN	0	0	0	4	3	2	1	0	0	0	0	0		
2	27/10/2015		OWN	UOB	14120				50,000.00																
		OUTSTANDING				PURCHASE OF PASSENGER CAR	43,899.00	31/07/2017	778.00	MONTHLY	MOTOR VEHICLES (REGISTERED WITH JPJ)	0	0	0	0	0	0	1	1	0	0	0	0		
3	18/05/2016	OUTSTANDING	OWN	PTPTN	14001				32,000.00			87	86	85	84										
						PTPTN	22,021.25	31/07/2017		MONTHLY	CLEAN														
4	13/03/2017		OWN	PUBLIC	14028				720,000.00																
		OUTSTANDING				HOUSING LOANS/FINANCING	698,478.25	31/07/2017	3,290.00	MONTHLY	PROPERTIES	3	2	1	0										
						TOTAL OUTSTANDING BALANCE	787,488.50	TOTAL LIMIT	852,000.00																
SPECIAL ATTENTION ACCOUNT																									
5	03/04/2013		JOINT	MBSB	13xx	HOUSING LOANS/FINANCING		31/07/2017																	
APPLICATION FOR CREDIT																									
6	17/08/2017	LOAN APPROVED	OWN	OCBC	14xx				30,000.00																

NOTES
Branch Code:
OCBC
14028 – TAMAN OUG BRANCH
UOB
14120 – JALAN AMPANG (MAIN BRANCH)

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Bank credit information is your credit history information in CCRIS that is managed by Bank Negara Malaysia.

CCRIS collects credit information from financial service providers in Malaysia like banks and insurance agencies under the purview of Bank Negara.

In the banking credit information section states all your credit facilities with the banks, status and repayment history of the loan for 12 months.

Sistem Potongan Gaji Angkasa (“**SPGA**”) offers salary deduction for civil servants, co-operatives and organizations through a systematic and secure deduction channel.

This system allows offices/employers to effectively and efficiently conduct monthly salary deductions, co-operatives/organizations to collect loan payments and fees while members/individuals can pay monthly installments of their co-operative loans.

SAMPLE REPORT

STRICTLY CONFIDENTIAL

Report Date	:	25 Aug 2017
PCRP No.	:	115972561
Report From	:	www.mycreditinfo.com.my

Personal Credit Report PLUS (PCRP)

SHAREHOLDING / DIRECTORSHIPS AND BUSINESS INTERESTS

Note: The following information relating to shareholding/ directorship interest by the Subject may not be current. There may be changes which may not be currently available in RAMCI databank.

No.	Company Name (Company No)	Position	Appointed	Business Expiry Date	Shareholding	%	Last Updated by RAMCI
1.	XXXX SDN BHD (5XX878-T)	DIRECTOR / SHAREHOLDER	18-Mar-2013	-	185,000.00	45.60	2017-07-31
2.	XXXX SDN BHD (123XX9-U)	DIRECTOR	29-Nov-2006	-	250,000.00	50.00	2017-07-31

angkasa **ANGKASA SPGA INFORMATION**

Month of Deduction: Jul 2017

Name of Subject I/C No. (Old) / Passport No. / Other ID New IC No.	LAM XXXX MING A1234567 7607XX-08-896X	Status Remarks Account ID / Reference Salary No.	Aktif (A) BERCUTI TANPA GAJI - 06809685

ANGKASA MONTHLY DEDUCTION

NOTE: The following information is provided by third party sources for your reference. ANGKASA does not guarantee the accuracy of the information. Please check with the Creditors for confirmation. Users should NOT treat the information as conclusive factor for evaluation purpose.

No	Organization	Code	Type	Account Status	Begin	End	Deduction Amount	Total Deduction
1	BANK	BRTXX	Pinjaman(6014)	Aktif (A)	11/2012	04/2032	845.00	845.00
			Pinjaman(6014)		11/2012	04/2032	845.00	
							TOTAL DEDUCTION (RM)	845.00

RAM Credit Information Sdn Bhd (532271-T) is certified to ISO/IEC 27001:2013, Cert. No. ISM 00290

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The SPGA report reflected the deduction of an individual by showing the begin date of the deduction, the end date, deduction amount and total deduction amount.

RAM CREDIT INFO

SAMPLE REPORT

STRICTLY CONFIDENTIAL

Report Date	:	25 Aug 2017
PCRP No.	:	115972561
Report From	:	www.mycreditinfo.com.my

Personal Credit Report PLUS (PCRP)

PENDING DEDUCTION

No	Organization	Code	Status	Begin	Deduction Amount (RM)
1	SYARIKAT ABC	WLXXX	IN TRANSIT	08/2017	657.00
2	XXX (M) SDN BHD	YHXXX	IN TRANSIT	09/2017	543.00
3	XXX BANK	HTYXX	IN TRANSIT	09/2017	789.00

PAYMENT HISTORY

Code	Deduction Month	Jul 17	Jun 17	May 17	Apr 17	Mar 17	Feb 17
BRTXXX	Date Process	31 Jul 17	30 Jun 17	31 May 17	30 Apr 17	31 Mar 17	28 Feb 17
	Amount	845.00	845.00	845.00	845.00	845.00	845.00

Unlike CCRIS, it stated the amount of the deduction for credit repayment, but the monthly deduction is not showing in 12 months period.

Legal action is an information that is reported against you by a creditor who has obtained a summons from the court on you.

RAM CREDIT INFO

SAMPLE REPORT

STRICTLY CONFIDENTIAL

Report Date	:	25 Aug 2017
PCRP No.	:	115972561
Report From	:	www.mycreditinfo.com.my

Personal Credit Report PLUS (PCRP)

LEGAL ACTION

Note: The following information on legal/winding-up/bankruptcy proceedings may not be current. This suit(s) may have been dismissed, withdrawn or struck-off (e.g. it may have been held that the Subject is not liable as alleged in the claim, if at all or the case against a Defendant may have been struck-off or the alleged debt may have been settled after the entry of the information in our database).

Defendant Name	LAM XXXX MING	I/C No. (New)	7607XX-08-896X
Defendant Address	38-9, XXXX Height, Jalan Imbi, Taman Bukit Mas 2, 46000 Petaling Jaya, Selangor.	I/C No. (Old) /Passport	A1234567
		Solicitor	XXXXX Wong & Dennis
Case No.	XX-9982-2017 High Court Selangor	Solicitor Address	Level XX, Menara TH Perdana, No. XXXX, Jalan Sultan Ismail, 50250 Kuala Lumpur.
Notice Date	28-XXX-2017		
Notice Ref	STAR XX-XXX-2017	Solicitor Tel	03-XXXX 5678
Plaintiff	XXXX Sdn Bhd	Solicitor Fax	03-9876 XXXX
Plaintiff Address	XX, Plaza Emas, Persiaran Surian, XXXX Damansara, 53800 Kuala Lumpur.	Solicitor Ref	HAA/KL/L-GHY-XXXX
		Solicitor Email	syh@XXX.com.my
Amount Claimed	RM184,389.00	Case Status	HEARING
Nature of Claim	CREDIT RELATED	Hearing Date	XX-XXX-2017
Suit Ref	STAR / XX-XXX-2017		

BANKRUPTCY ACTION

Note: The following information on legal/winding-up/bankruptcy proceedings may not be current. This suit(s) may have been dismissed, withdrawn or struck-off (e.g. it may have been held that the Subject is not liable as alleged in the claim, if at all or the case against a Defendant may have been struck-off or the alleged debt may have been settled after the entry of the information in our database).

Defendant Name	LAM XXXX MING	I/C No. (New)	7607XX-08-896X
Defendant Address	38-9, XXX Height, Jalan Imbi, Taman XXXX Perdana 2, 46000 Petaling Jaya, Selangor.	I/C No. (Old) /Passport	A1234567
		Solicitor	XXXX & TAN
Case No.	29-XXXX-2015	Solicitor Address	Suite 89-XX, Menara TUANKU, 10XX, Jalan Imbi, 50250 Kuala Lumpur.
Case No.	High Court Selangor		
Creditor Name	XXX Bank Berhad	Solicitor Tel	03-XXXX 5678
Adjudication Order Date	XX-Nov-2016	Solicitor Fax	03-9876 XXXX
Adjudication Order Ref	XX-XXX-2016	Solicitor Email	XXX@stwXX.com.my
Discharge Date	20 Dec 2017		
Discharge Ref	STAR / 23 Dec XXXX		

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A defendant is someone who is being sued or accused of committing. In this case, if it’s your report, the defendant is yourself. A plaintiff is a person who brings suit in court.

Under this section, the details of the summons such as amount claimed, nature of the claim, summons number, solicitors and many more are stated.

Trade Bureau / Credit Reference is a default section that is reported by a creditor against you. It includes a phone number, remarks and also sometimes email address for you to contact the creditor.

RAM CREDIT INFO

SAMPLE REPORT

STRICTLY CONFIDENTIAL

Report Date	:	25 Aug 2017
PCRP No.	:	115972561
Report From	:	www.mycreditinfo.com.my

Personal Credit Report PLUS (PCRP)

TRADE BUREAU / CREDIT REFERENCE

Note: The following information is provided by third party sources for your reference. Searched Subject will also be listed if he/she is in guarantor capacity. RAMCI does not guarantee the accuracy of the information. Please check with the creditors for confirmation as alleged debts may have been settled since recorded. Users should NOT treat the information as conclusive factor for evaluation purpose.

Subject Name	LAM XXXX MING	Subject ID	XX99-00-87/HU87656
Creditor Name	XXXX Service Malaysia Sdn Bhd	Solicitor Name	Jason & XX Co.
Industry	RETAIL FINANCE	Solicitor Address	67, XXX AHL, Jalan Tebrau,
Creditor Ref	GY-XX64-KJ		Taman XXXX, 32789 Kuala Lumpur.
Amount Due	RM7,008.91 (AS AT 20 XXX 2015)		
Aging Days	> 180 days	Solicitor Contact	03-XXXX 8899
Debt Type	Loan	LOD/NOD Date (if any)	LOD (XX-Mar-2017)

ENQUIRIES MADE ON YOU

Note: Enquiries made on you refer to search enquiries made by RAMCI subscribers which consists of banks businesses and companies, government and statutory bodies, clubs, cooperatives, commercial banks, financial institutions, trading and commercial companies, employment agencies, professionals e.g. lawyers, accountants, property valuers etc. amongst others.

No.	Enquirer Business Sector	Date Search
1.	FINANCE BANKING	2017-02-23
2.	FINANCE BANKING	2017-08-17

-END OF REPORT-

RAMCI Internal Reference:

Date: 2017-08-25 **Time: 10:22:46** **User ID: MYC10**

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2.2.3 JAGAMYID

JagaMyID provides you a peace of mind knowing that your identity is safe and you are in control of your own credit health.

According to statistics, cases involving identity thefts have increased over the past 10 years and many people do not aware and ignorant of the existence of identity theft.

With JagaMyID credit notification alert and credit profile movement service, you are enjoying 2-in-1 benefits at the same time.

Your credit health will be protected by subscribing to JagaMyID as it will:

- Lock out identity fraud
- Maintain consistent and healthy i-SCORE
- Negotiate for better interest rate and credit terms
- Quick and easy view of your total credit / loan portfolio

For as low as 12 cents a day, you will receive a timely alert when someone applying credit card or loan facilities using your name or if RAMCI detected any changes in your credit profile.

A monthly notification email will also be sent to you to update you on your credit profile changes and credit score.

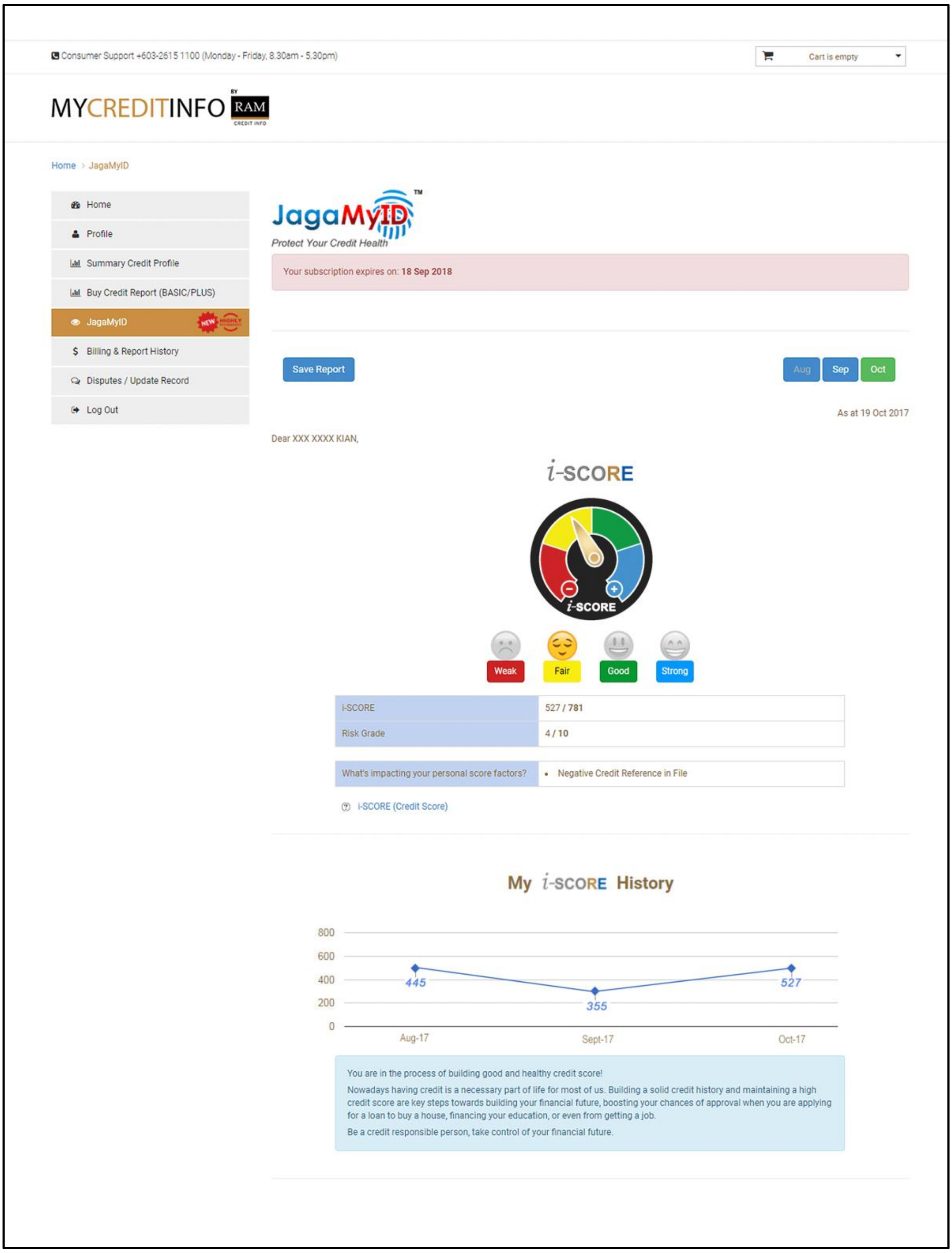
With JagaMyID, it will empower you to take control of your own credit health and be more financially disciplined in your path of seeking financial freedom.

The yearly subscription service offers below;

1. 12 x monthly update of CCRIS information and your i-SCORE
2. 2 x PCRP (Personal credit report PLUS)
3. Monitoring your credit card and other credit facilities utilisation
4. Tracking your credit applications made under your name
5. Monthly payment tracking
6. Email alerts on changes in your credit profile

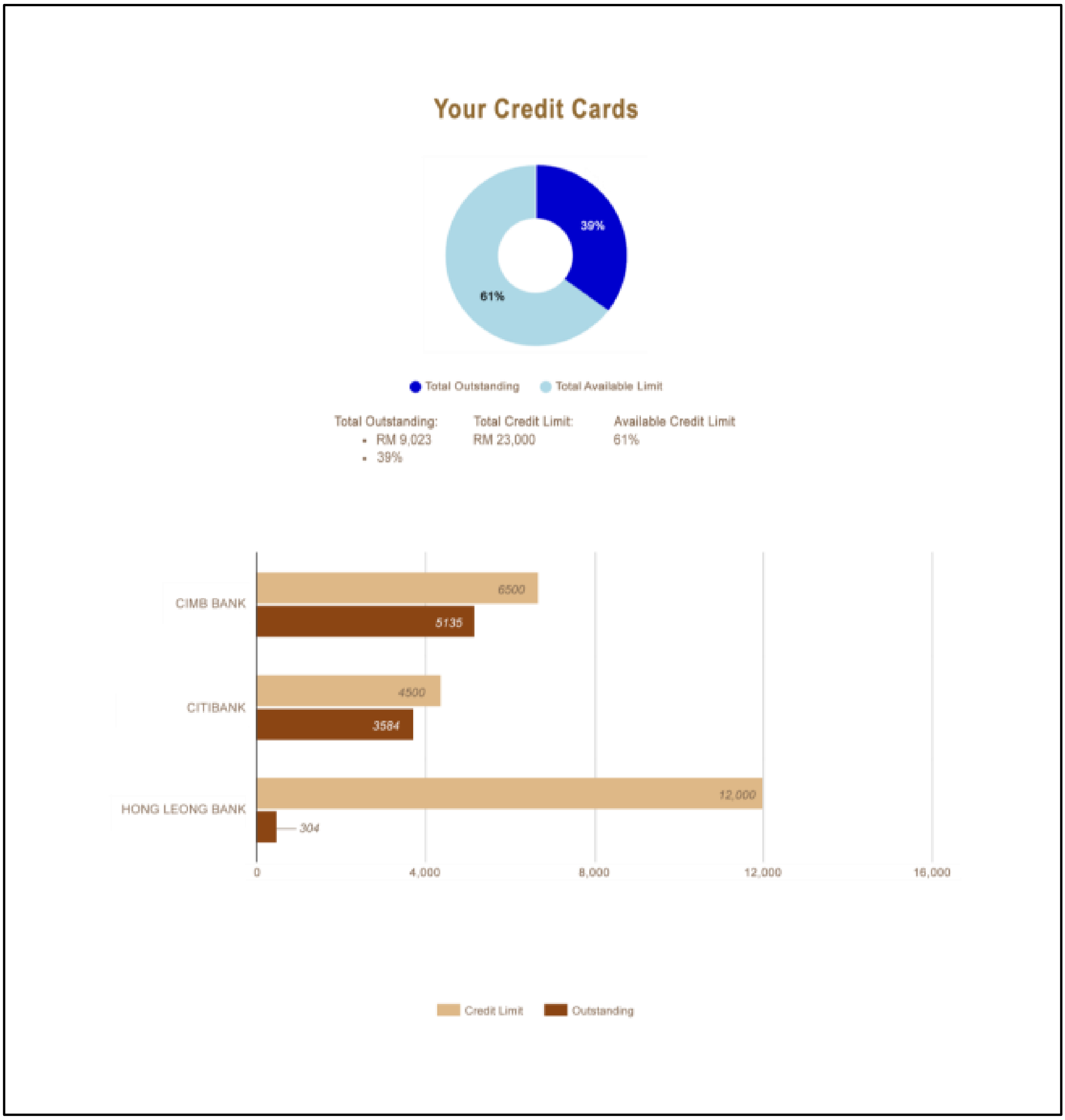
2.2.3.1 HOW TO READ JAGAMYID REPORT?

It shows the i-Score which tabulates your credit score. It also displays the credit score history of the account holder.

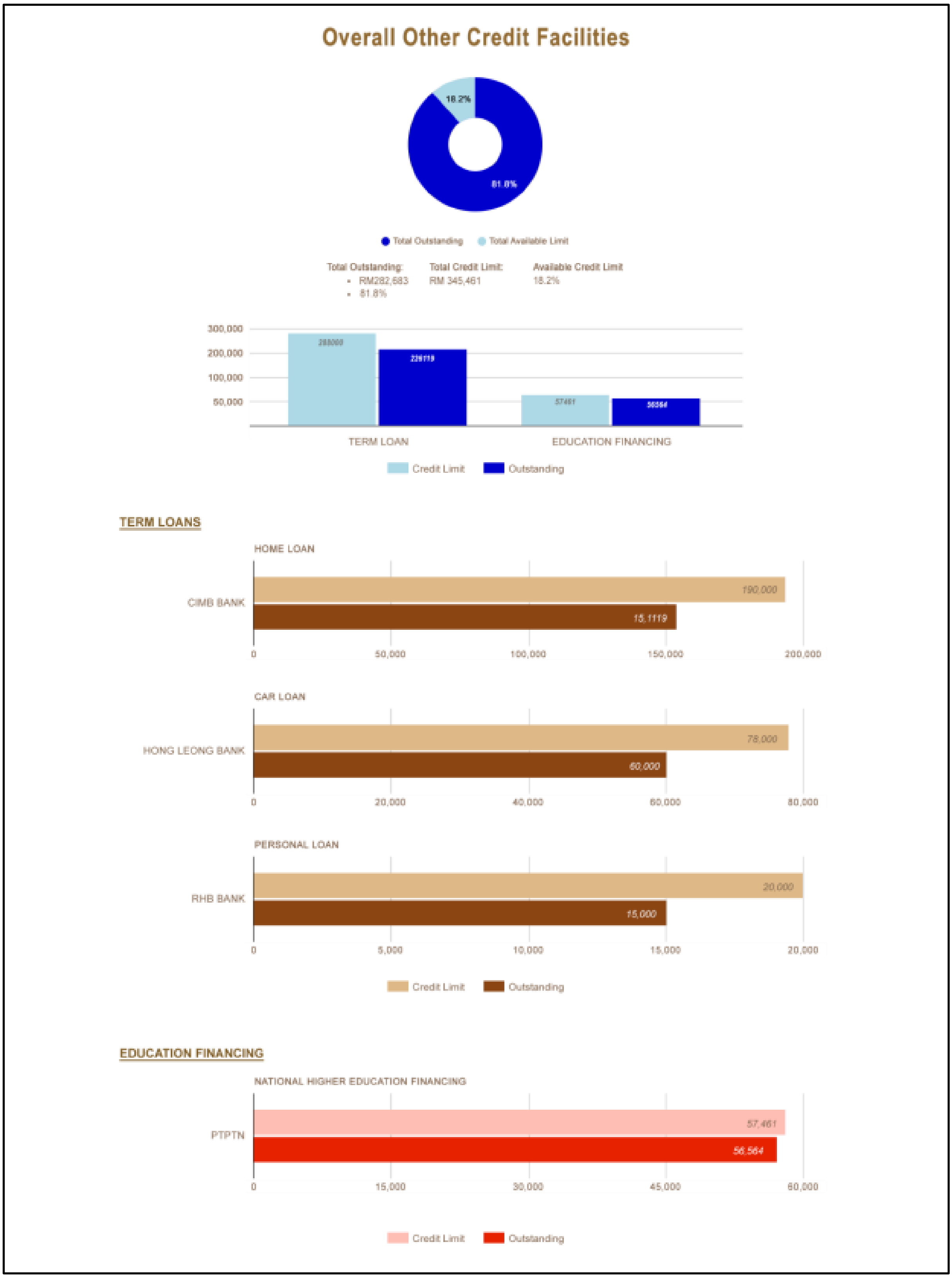


The i-Score will show the trend of your score whether it's improving or declining. This can train you to be more discipline in your credit spending and repayment.

With JagaMyID, you can take control of your own credit health, to prepare yourself for bigger purchases in future.



It also shows the information about the credit cards that are held by the account holder.



Monthly Conduct of Payment Tracking

NO.	FACILITY	LENDER	CURRENT MONTH	MONTHLY CHANGES		
				FROM	TO CURRENT	REMARK
1	CREDIT CARD	CIMB	Nov - 17	0	0	
2	CREDIT CARD	CITIBANK	Nov - 17	0	0	
3	CREDIT CARD	HONG LEONG BANK	Nov - 17	0	0	
4	HOME LOAN	CIMB BANK	Nov - 17	0	1	
5	CAR LOAN / FINANCING	HONG LEONG BANK	Nov - 17	0	0	
6	PERSONAL LOAN / FINANCING	RHB BANK	Nov - 17	0	0	
7	EDUCATION FINANCING	PTPTN	Nov - 17	0	2	

To view full CCRIS Report, click here.

Your Recent Credit Application Status

NO.	APPLICATION DATE	CAPACITY	LENDER	CREDIT LIMIT	STATUS
1	13 OCT 2017		HSBC BANK	RM150,000	REJECTED

To view full CCRIS Report, click here.

Litigation, Defaulted and Enquiries on You

SECTION	DESCRIPTION	NEW ALERT	CHANGES	AS AT DATE
A & B	Litigation (Legal Action / Bankruptcy / Winding-up / Foreclosure)	0	0	30/08/2017
C	Defaulted Payment	0	0	30/08/2017
D	Enquiries Made on You	1	0	30/08/2017

To view full CCRIS Report, click here.

To view your previous litigation, defaulted and enquiried on you:

DATE	DETAILS
29/08/2017	
29/08/2017	

The system constantly monitors your credit card utilization, tracking monthly payment update and look out for any discrepancies on your credit information reported by the creditors.

The system comes with a timely alert for any changes in your credit profile when it detects any new credit application made using your name.

3.0 WHAT IS FINANCIAL PLANNING AND WHY YOU NEED TO PLAN

Planning is crucial in the first step towards financial well-being. A good financial plan together with detailed financial advice can help you manage your financial future prudently.

Whilst you cannot predict the future, you should be fully prepared for our goals to be fulfilled at every stage of our life. In order for these goals to be achieved one must do financial planning.

Therefore, it’s better to start planning now – rather than no planning – because it doesn’t matter at what stage of your life is - you must understand your own credit roadmap. After all, prevention is always better than the cure.

So. What is Financial planning? Financial planning is a systematic approach where the financial planner (it can be yourself) maximizes an individual's existing financial resources by using the appropriate financial planning tools and investment to achieve one’s financial goals and objectives.

This means that financial planning is the process of meeting one's life goals through proper management of one's finances.

Life goals could be like buying a home, saving for children's education, buying a car, protecting the family against financial risks, or planning for retirement.

The need for financial planning services ascends from the need of meeting the financial goals of your life.

It is a financial planning that helps you to take a comprehensive look towards your future financial needs and goals including cash flow,

debt management, education funding, retirement planning, estate conservation and portfolio management.

A financial planner helps to direct you into making good decisions about your investments so that you won't make any mistakes, as well as earning benefits of your financial planning for the rest of your life.

3.1 BENEFIT OF FINANCIAL PLANNING

Financial planning is the long-term process to wisely manage your finances in order to achieve your goals and dreams, while at the same time negotiating the financial barriers that inevitably arise in every stage of life.

Remember. Financial planning is a process, not a product.

Forming a budget, allocating financial resources for savings and investments, or even setting up a savings account are all components of personal financial planning.

If you have a background in accounting or finance, you may be able to initiate these tasks yourself, but if you don’t have any experience or knowledge in this area, you may consult a certified financial planner for advice and guidance.

Financial planners are responsible for organizing your finances, analyzing your credit and assets, and making recommendations on different savings and investment accounts.

Practically, anyone with moderate wealth or a decent income can gain the benefits of financial planning.

This is due to:

- Financial planning being based on individual risk reporting, and it delivers a roadmap to achieve financial goals.

- Financial planning helps to give clear visions on your financial position and guides you to examine your current financial status and determine objectives.

- It helps in developing a strategy or plan for how you can meet your goals pertaining to your current situation and future. It also identifies weaknesses and recommends improvements.

- It puts in place the risk management system to meet uncertainties of life through efficient Retirement Planning, Insurance Planning, Tax Planning, as well as Estate planning.

- Financial planning is the process of managing your money to achieve personal economic satisfaction as it allows you to control your financial situation and provides a feeling of security and less stress.

- Lastly, it is a disciplined approach to manage your finances to reach life goals. It involves systematic and disciplined investment mechanism, which helps in creating wealth over a period.

  As a result, it helps you to become more responsible towards disciplined investing.

Furthermore, financial planning helps you determine your short and long-term financial goals and create a balanced plan to meet those goals.

Here are ten powerful reasons why financial planning will get you where you want to be, with the help of an expert financial advisor.

1. ***Income***
   It is possible to manage income more effectively through planning. Managing income helps you understand how much money you'll need for tax payments, other monthly expenditures, and savings.

2. ***Cash Flow***
   Increase cash flows by carefully monitoring your spending patterns and expenses. Tax planning, prudent spending, and careful budgeting will help you keep more of your hard-earned cash.

3. ***Capital***
   An increase in cash flow can lead to an increase in capital. Allowing you to consider investments to improve your overall financial well-being.

4. ***Family Security***
   Providing for your family's financial security is an important part of the financial planning process. Having the proper insurance coverage and policies in place can provide peace of mind for you and your loved ones.

5. ***Investment***
   A proper financial plan considers your personal circumstances, objectives and risk tolerance. It acts as a guide in helping choose the right types of investments to fit your needs, personality, and goals.

6. ***Standard of Living***

   The savings created by good planning can prove beneficial in difficult times. For example, you can make sure there is enough insurance coverage to replace any lost income should a family breadwinner become unable to work.

7. ***Financial Understanding***

   Better financial understanding can be achieved when measurable financial goals are set, the effects of decisions understood, and results reviewed. Giving you a whole new approach to your budget and improving control over your financial lifestyle.

8. ***Assets***

   A nice 'cushion' in the form of assets is desirable. But many assets come with liabilities attached. So, it becomes important to determine the real value of an asset. The knowledge of settling or canceling the liabilities comes with the understanding of your finances. The overall process helps build assets that don't become a burden in the future.

9. ***Savings***

   It used to be called saving for a rainy day. But sudden financial changes can still throw you off track. It is good to have some investments with high liquidity. These investments can be utilized in times of emergency or for educational purposes.

10. ***Ongoing Advice***

    Establishing a relationship with a financial advisor you can trust is critical to achieving your goals. Your financial advisor will meet

with you to assess your current financial circumstances and develop a comprehensive plan customized for you.

Did you know?

"Financial planning is a process, not a solution. A well-structured planning can help you meet your financial goals by evaluating your overall financial circumstance, thus, outlining strategies that are tailored to your individual needs."

Personal financial planning can be done in the following 4 steps:

1. ***Assessment***

   The financial condition of an individual can be gauged by formulating balance sheets and income statements.

   The personal balance sheet calculates the assets on the one hand and liabilities on the other. Assets include car, house, stocks, and bank account.

   Personal liabilities include credit card debt, bank loan, mortgage etc. Information regarding personal income and expenses is listed under the personal cash flow statement.

2. ***Goal setting***

   After having done a proper assessment of the financial situation, an individual can set up long-term as well as short-term goals.

3. ***Constructing A Plan***

   Once the goals are set, appropriate strategies should be formulated in order to fulfill the goals.

   This could be achieved by curtailing unnecessary expenditure or by expanding the income level by investing in stocks, real estate or other interest-earning assets.

4. ***Execution***

   For proper implementation of the financial plans, individuals lack patience and perseverance and hence seek professional help from financial planners, investment advisors, and lawyers.

   Monitoring and reassessment: The financial plan of an individual should be monitored from time to time for a re-evaluation.

Personal Finance Planning Tips *"Whether you've been in the workforce for years, or are a recent graduate just starting out, it's never too late to create financial goals, security, and freedom – both now, and for the future."*

3.2 BLACKLISTED AND WHAT CAN YOU DO ABOUT IT?

Firstly, you need to understand how CCRIS system works. CCRIS is a centralized system under Bank Negara which compiles data on your outstanding loan amount and payment history for the past 12 months, at any given time.

Any records older than 12 months are considered purged.

To give you a clearer view, if you are late in payment (for instance, six months outstanding in February 2017) but you have paid off the outstanding in March 2017, the records will still show February equals to six months, March equals to 0 months, and also April equals to 0 months.

As CCRIS is a report for 12-month period, the six months in arrears records will only disappear in February 2018 which is 12 months later.

You cannot simply erase or request to clear it before that as it is a rolling report.

If it shows, for example, 4, 3, 2, 1 - meaning your loan has been due for 4 payments for 4 months.

For your information, every individual has their CCRIS report which can be recovered by financial bodies or by the individual themselves, but not by other people.

The Credit Bureau is legally empowered to collect credit information about you from these financial institutions. However, the Credit Bureau cannot simply report and does not judge your creditworthiness.

Also, to be fair, information on rejected credit applications is not reflected in credit reports so that one bank will not be biased by the prior decision of another bank.

In your CCRIS information could in fact be treated differently and subjectively by each financial institution. Your credit report can be printed anytime, and CCRIS on working hour at Bank Negara.

3.2.1 PINJAMAN TABUNG PENDIDIKAN TINGGI NASIONAL (PTPTN)

The latest step taken by PTPTN is to list the borrowers in CCRIS. All borrowers who are supposed to repay PTPTN 6 months after graduation will have their name listed in CCRIS.

This will affect future purchase of house or any personal loan/car loan you apply from banks. When the banks check on the CCRIS and saw many months of bad repayment they will reject the loan.

PTPTN borrower strictly need to follow the repayment schedule furnished by PTPTN to ensure they do not encounter issue applying for loans from banks.

Main thing is to avoid late repayments as it is not about settling the outstanding balance. In order for you to remove your PTPTN record from CCRIS, you need to settle the outstanding sum to remove your name from CCRIS.

CCRIS record will be updated to status SETTLED within 7 days of settling the loan.

If you cannot afford to settle the full PTPTN loan amount but wants to avoid CCRIS related issues, you need to follow the repayment schedule to ensure the repayment is never late.

Let’s say you encounter financial problems to repay, approach PTPTN to restructure the repayment schedule.

To request a restructuring of repayment schedule, you have to possess good conduct by not being late in repayments for the past 6 months continuously without any outstanding amount in each repayment.

For your information, if you, a PTPTN borrower has bad repayment records in CCRIS for PTPTN loan, this record will persist for the past 12 months before it gets cleared because CCRIS report shows all your repayment histories for the most recent 12 months.

Approval on any loan applications from banks is at banks' discretion.

To ensure monthly repayment is being updated in PTPTN system in the same month, a PTPTN borrower must make repayment by 27th of each month.

Any repayment made after this date will only be reflected in the following month, making that repayment as late by the system. Generally, this is applicable for all repayment channels.

However, any repayment made via PTPTN counters will always be updated as paid in the same month, every 19th of the month.

If your repayment history is still bad in CCRIS report even though you have made payment every month is because your repayment is being made later than the schedule repayments.

For example, you only start repayments to PTPTN one year after graduation, instead of 6 months.

Also, it is affected when the monthly repayment is less than the scheduled monthly repayment as dictated by PTPTN. Let say, you only pay RM500 when you should be paying RM800.

3.3 STEPS TO CLEARING YOUR BANK NEGARA BLACKLIST STATUS

The term “Blacklist” strikes fear in many Malaysian banking customers.

If you've been blacklisted by Bank Negara (or sometimes known as the CCRIS system), here's what you need to know.

As long as you have loans, you will have some transcript history in Bank Negara.

A credit transcript history is not a bad thing because banks will look at this to see how many loans you have in your name and if you've been paying it thoroughly. The key isn't in having no entry on your report but in keeping the entries good.

The items on your report will essentially include:

1. The banks you have loans or credit cards with
2. Credit or loan applications you have recently made
3. The amount borrowed or outstanding
4. The credit limit (usually for credit cards)
5. Type of repayment (monthly, yearly)
6. Installments in debts (missed payments) usually in the past six months

The last entry is the most important. The more debts you have, the higher the chance loan providers will consider you as blacklisted.

This means that, while “missed payments” is not exactly a blacklist you are placed on, it is still an overall poor credit rating which may then cause banks to put you on their internal 'blacklists' and not offer you further credit.

Unfortunately, there isn't an easy or quick way out of this. It basically comes down to this - you must pay your dues!

There are three situations that can cause you to have a mottled credit report, and that is, either you didn't pay your loan in full by the time you should have, or you have been consistently late or missed some payments.

If you have been blacklisted for not paying off your loan in full by the end of tenure, the simple answer is that you just must pay your loan in full.

You may call your bank and negotiate a repayment schedule if you cannot afford the lump sum but if you are over the loan tenure eg 10-year loan, they may not accept any such negotiations. But, it's always worth a shot to ask and show your willingness to discuss with your banker.

If you think that you can pay off the amount, you will need to ask the bank for a Letter of Discharge.

Once you receive this letter, ask the bank when they will be submitting this update to Bank Negara.

Make sure you go to Bank Negara to confirm that this has been done. If it is still unsettled, you can call your bank again to remind them.

In the short-term, between waiting for the bank to update your status, you will need to take your Letter of Discharge with you when applying for other loans or credit cards to show the new bank that you have settled your dues.

Often people don't mean to miss their payments, but they may be forgetful and end up paying late. You have to take note that this can cause problems in your credit report.

Bank Negara reports keep track of your payment record for one year. To fix this situation, you will need to consistently pay on time for 12 months to clear your old record.

Sometimes, 10 out of 12 months isn't bad either but the longer you keep paying on time; the better you will look on your credit report.

Additionally, missing a few payments means you will need to pay up all your late payments and then rebuild your score through diligent payment the same way as the situation above.

If the missed payments are too high; you can try negotiating with your bank to see if they would be willing to incorporate the missed amounts into the remaining loan sum, thus, changing your monthly repayments to cover the missed amounts.

4.0 BUILDING WEALTH

The approach to building wealth is quite straightforward and just requires the use of common sense.

In fact, it's so simple and practical that it can be summarized in just two sentences:

1. Make more than you spend and invest the difference wisely.

2. Develop simple daily habits that result in wealth accumulation.

The first sentence summarizes how to manage your personal finances so that you grow your assets.

It explains the importance of creating positive cash flow that you invest to produce additional positive cash flows.

Notice how it's composed of three distinct yet connected ideas to form one concept:

1. *Spend less*

2. *Earn more*

3. *Invest wisely*

There are endless permutations on how to achieve this objective, but they all follow two simple themes:

- You can reduce spending immediately through various forms of frugality.

- You can increase your income through various strategies including working more jobs, changing jobs, getting a raise, or starting a business.

In short, you must create a gap between how much you earn and how much you spend that result in savings to invest for growth and additional income stream.

The twin themes of spending less and making more are not mutually exclusive, but they do require varying mindsets.

Frugality is about living on less and requires self-discipline. For most people, there is a feeling of sacrifice when following this path, thus making it difficult to succeed.

They have to make lifestyle changes which some deem to affect their lifestyles.

If that's you, then frugality is a slow and difficult path to wealth because you will be in a constant battle between lifestyle desires and financial freedom goals.

For some others, frugality is a pleasurable journey in simplification where fulfilment results from redirecting earned income toward financial freedom goals rather than wasting it on frivolous spending.

It's not uncommon for those who follow the extreme frugal path to save 70 percent of their income and achieve financial independence in less than 10 years, but that's not everyone's cup of tea.

Another alternative is to raise the income side of the equation. The advantage of this approach is there is no theoretical limitation to how fast your wealth can grow because your earning capacity is unlimited.

Many wealth gurus describe the income equation as the "fast path" to wealth; however, if you don't master the spending side of the equation, you still run a risk of failure due to the all-too-common mistake of allowing spending to rise as fast as income.

The greatest wealth builders focus on both sides of the equation together. They maximize savings by controlling spending while growing income at the same time.

It's the quickest, most certain path to increased savings for investment.

The third component of the equation – invest wisely – is also simple because everything you need to learn is available for free in the public domain.

You don't have to take investment seminars or build extraordinary expertise. The information on investing is readily available on the Internet and you have to access it.

There are two well-proven paths to growing your investments:

1. ***Acquiring Paper Assets***

   Conventional buy and hold using low-cost index funds such as Exchange Traded Funds (ETF's).

   You can also use a buy and hold strategy for trustee stock such as blue-chip shares such as Maybank or Tenaga which allow for capital appreciation and dividend income.

   Stocks are but one of many possible ways to invest your hard-earned money. Why choose stocks instead of other options, such as bonds, rare coins, or antique sports cars?

   Quite simply, the reason that savvy investors invest in stocks is that they provide the highest potential returns.

   And over the long term, no other type of investment tends to perform better.

On the downside, stocks tend to be the most volatile investments. This means that the value of stocks can drop in the short term.

Sometimes stock prices may even fall for a protracted period.

For instance, the 10-year return for the S&P 500 was slightly negative as recently as late 2010, largely due to the 2008 financial crisis and the early 2000s tech bubble bursting.

Bad luck or bad timing can easily sink your returns, but you can minimize this by taking a long-term investing approach.

2. ***Acquiring Real Estate***

   Direct ownership of positive cash flow real estate. Real estate investing offers great potential to earn significant returns.

   It can become a valuable source of cash flow in your investment portfolio when managed wisely.

   As with any investment, real estate investments require you to understand and weigh the risks and potential rewards before beginning.

   Depending on which way you choose to invest in real estate, you'll need varying amounts of time, beginning capital, knowledge, and patience.

In a nutshell, achieving financial freedom is really quite simple:

1. Spend less than you make and invest the difference wisely.
2. Rinse and repeat until the income from your investments exceeds your expenses.

4.1 YOUR WEALTH IS DETERMINED BY YOUR HABITS

The reason so few people achieve wealth is that they don't adopt habits that lead to wealth.

As you already know, the formula is simple and fully proven. The only thing remaining is to take action with enough consistency to achieve the goal… and that's where the problems occur.

Here's the formula for how this works:

[(Small, Smart Choices) * (Consistency) * (Time)] = Wealth

Procrastination is the single biggest killer of wealth. You plan on getting around to it someday.

You know what you should do but there is always some other priority. The kids need braces, the car needs repair, the kitchen needs remodelling.

The action is where the rubber meets the road. It's one thing to know what to do, and it's something else entirely to get it done. That's why habits are so critical.

The reason good money habits are essential is actually scientific and results from the mathematics behind how money compounds to grow into wealth.

Small changes done over long periods of time can create massive results. It's an easy path to wealth.

That's why daily habits are so important.

- A daily habit of frugality saves small amounts every day that compound and grow over long periods of time to become substantial wealth.

- A daily habit of increasing your earning capacity through training and education will add small amounts every day to your income potential.

Both of these daily habits will create an increasing spread between what you spend and what you earn, which will increase your wealth at an accelerating rate.

This isn’t rocket science. It’s just daily habits dedicated to a specific goal – building wealth.

The habit causes the action which produces the result. It’s simple cause and effect.

Habits are the easiest and simplest way for you to cross the bridge between how to build wealth using the simple formula above, and actually doing what it takes to achieve the goal.

You don’t have to intellectualize the process or overcome massive obstacles. You don’t have to get ready to get ready.

Instead, you just start today by adopting one habit that serves your wealth goals.

Here are some potential starting points:

1. Sign up for an automatic savings program.
2. Prepay a small amount on your mortgage.
3. Find an unnecessary expense and eliminate it.
4. Clean up clutter by selling unused assets (seldom used the car, electronics, jewelry, etc.).
5. Repair something instead of replacing it.

6. Develop a niche expertise in your profession that commands a higher wage.

7. Start learning about asset allocation or investment real estate.

Just pick one habit and start today. Practice the habit until it becomes permanent, then pick another habit and do it again.

Then another and another until you can see your wealth grow.

The greatest obstacle to building wealth is procrastination. Habits are the simplest way to overcome procrastination and get into immediate action.

Habits reduce the entire wealth building process into bite-sized pieces that are easy for anyone to digest. The compounded effect of all these tiny actions over a lifetime becomes wealth.


Pick one wealth building habit to develop today to get started on your journey to financial freedom.

4.2 SUMMARY OF HOW TO BUILD WEALTH

The formula for wealth is simple: spend less than you make and invest the difference wisely.

The mechanism to take action on the formula and produce results is equally simple: adopt wealth building habits.

Here's how it looks in a different format:

[(Small, Smart Choices) * (Consistency) * (Time)] = Wealth

The only question remaining is whether or not you will do what it takes.

Will you follow these proven, simple formulas to achieve amazing financial results? Or will you return to your same old patterns that produce the same old results?

The only thing standing between you and wealth is the willingness to act on this timeless wisdom.

Building wealth requires a sustained and disciplined approach. The reason why many do not achieve spectacular wealth is that they are not willing to make sacrifices for a better and more prosperous tomorrow.

5.0 101 LOAN BORROWING

If you have a loan of any kind, you know how difficult finding a lending agency is, not to mention, how difficult it can become if you get behind on your debt.

What are some ways to stay ahead on your loan, and what are the benefits of staying ahead of your loan?

Firstly, the best way to stay ahead of your loan is to never borrow more than you need.

Most lenders will allow you to borrow as much as you are qualified to borrow instead of the amount that you need.

Therefore, you could be approved to borrow RM250,000 for a home when you can only afford to pay RM150,000 for a home.

When you only take out what you need, it makes it easier to stay within your budget.

On the other hand, if you have a lot of student loan or credit card debt, the best way to stay ahead of them would be to consolidate those loans.

When you consolidate, you generally get a lower interest rate and only need to make one payment per month.

This means that you pay less each month and don’t risk missing a payment because you forgot it was due.

Another way to lower your interest rate is to sign up for automatic repayments through your bank.

You can also make half of your monthly loan payment every two weeks – meaning that you make 26 payments per year. This can help you because you make the equivalent of 13 payments per year.

While this won't help you pay off your loan overnight, it will reduce the amount of time it takes to pay off your loan for several months.

If you have a 30-year mortgage, you could shave up to 30 months off your loan by using this method. In addition to staying ahead of your loan, you reduce the interest that you must pay on that loan.

In addition, if you get RM1,000 bonus from your employer or receive some other windfall, you should put that extra money toward your debt.

If you can, try to put the money toward paying off a single debt balance instead of spreading that money around.

By paying off an entire debt balance, you lower the amount that you must pay each month to your creditors overall.

Another way to help you stay ahead of your loan is don't be afraid to refinance your loan.

The terms of your car loan or home loan may not have been as good as they could have been due to credit issues that you had in the past.

Once your credit score increases and your past credit issues become less and less relevant to lenders, you may want to consider refinancing your loan.

This could lower your interest rate as well as give you access to any equity that you have in an asset.

Staying ahead of your loan is critical if you want to effectively manage your debt.

Paying down your loan as soon as possible makes it easier to keep your finances in a good shape while paying your lender as little interest as possible.

5.1 6 REASONS WHY PEOPLE BORROW MONEY

Loans and credit form a cornerstone of many people's personal finances. There are many different types of credit that you can get access to.

Here are 7 reasons why people use loans and credit:

1. ***To be able to drive***

   The motor industry is known for the sky-high prices of cars as well as the car finance industry.

   If you need a car, but you don't have the cash on hand to buy a car, you can apply for a car finance loans. These tend to come from car finance companies.

   Car finance loans are expensive though, so it is important to be in full-time and steady employment before you apply for this loan.

2. ***To buy a house***

   Getting a mortgage is one of the most life-changing moments in someone's life. The ability to get on the property ladder is something that many people aspire to.

If you want to buy a home, your best bet is to improve your personal finances and apply for a mortgage with a bank or building society that understands your needs well.

You also need to save for a deposit which can take time, so it is important to start managing your credit profile well.

3. ***For DIY***

   Personal loans also one of the popular options for people who want to do extensions on their homes or renovations.

   Personal loans can be used for any personal reason as long as your lender approves that.

4. ***To widen monthly budgets***

   Loans such as payday loans and money advances are by some people to help them tide over their bills before the payday.

   Payday loan usage has soared as the key way to help people sort out a few payments while they are waiting for their pay to come through.

   Relying on loans every month is not a good idea and payday loans and money advances should only be used in the short-term when a pressing financial need comes up.

5. ***To save face from family and friends***

   Family and friends are two of the most common sources of cash for many people especially when times are hard.

   When you borrow money from a family member or friend, you instantly change the dynamic of a relationship especially if you find that you cannot repay the money back on time.

This is another key reason why many people turn to loans and credit to help them out with their financial problem instead of asking to borrow money from family and friends.

Ultimately, borrowing from a responsible lender is better than putting your relationships with family and friends under strain.

6. ***To start up a business:***
   Therefore, you should know the importance of having a job when borrowing.

   Consumers are advised to only contact responsible lenders who have their best interests at heart which mean only choose lenders who are responsible.

   Responsible lenders can easily be noted by the fact that they only lend to people who are in full-time monthly employment and the interest changes are not ridiculously high.

   You need a steady income that is predictable at the end of each month to qualify for short-term loans and money advances.

Furthermore, try and avoid borrowing money from friends or family for short-term needs such as buying Christmas presents or going shopping.

It’s important to get into the habit of saving your money for these occasions so when they come around, you can instantly buy what you want.

Borrowing from the right reasons also includes not borrowing money from friends and family for a short-term requirement.

You might feel worried and stressed about cash and this may cause you to reach out to friends and family.

Do this only if it is a complete and total emergency – there are plenty of professional consumer finance options available that can help you.

The impact of borrowing money can be strong in all aspects of your life from your personal finances, your personal life, and your health.

Studies have proven the link between stress, health and money problems. It's important to make sure that you take care of yourself when you borrow money.

Don't overboard with borrowing money if you have many commitments that you need to take care of.

The impact can be tough, and it can create stress on your personal life by causing you to think about money all the time.

You can mitigate this pressure by creating a specific plan for borrowing money and ensuring that you pay it back on time.

Tips to follow for loans and credit

Know the dates of your loan repayments: For example, if you have a payday loan or a cash advance, be aware that at the end of the month, you need to repay the loan.

Write a detailed spending diary: A spending diary will help you to see how you spend money. Normally spending on excessive luxuries such as daily coffees can be curbed and funneled into repaying debts.

5.2 WHAT IS AN INTEREST RATE?

Put it simply, the interest rate is the reward for the bank for lending you money to buy things (home, care, etc.).

The higher the interest rate, the higher the 'reward' you are giving to the bank for lending you money.

Conversely, if you lend the bank money (via a deposit in a current/savings account or fixed deposit), the interest rate is your reward. In this case, the higher the interest rate, the higher the reward the bank is giving you to lend your money to it.

For example You borrow RM10,000 from the bank at a 10% per annum (p.a.) interest rate, promising to pay it all back in one lump sum in 1 years' time.

In this instance, the total amount you have to pay back is RM10,000 + (RM10,000 x 10% = RM1,000) = RM11,000.

The RM10,000 here is called the principal, and the RM1,000 here is called the interest cost.

So, in theory, when you are borrowing money from the bank, you want the lowest rate possible!

Sounds easy enough, but the comparison is complicated with the various types of interest rates in the Malaysian loan market.

5.3 MOST LOAN PRODUCTS IN MALAYSIA ARE SOLD WITH THREE TYPES OF INTEREST RATES:

1. ***Flat Rate (on full principal)***
   Typically for Personal Loan and Hire Purchase Financing (Car / Motorcycle Loans)

2. ***Fixed Rate (on reducing balance)***
   Typically for Credit Cards and some Home Loan (Mortgage) products

3. ***Variable Rate (on reducing balance)***
   Typically for Home Loan (Mortgage) products Flat Rate (on full principal)

5.3.1 FLAT RATE (ON FULL PRINCIPLE)

In Malaysia, personal loans and hire purchase financing (auto loans and equipment) are quoted on a flat rate basis. This means that interest is charged on your full principal over the tenure.

The interest cost for a flat interest rate loan product is easy to calculate, you just multiply the rate with the number of years and the initial amount borrowed (principal).

For example:

You apply for a personal loan of RM10,000 at 5% flat p.a. for 5 years, so with 60 monthly repayments.

Your total interest cost will be 5% x RM10,000 x 5 years = RM2,500. So, you have to pay back RM12,500 over the course of 5 years, amounting to RM208.33 per month.

Sounds easy enough, although the effective interest rate on your borrowing is much higher than 5% p.a. where the flat interest rate of 5% is always charged on the original amount borrowed, no matter what's been repaid, so in the last year even when you've paid down a large part of your loan, you still end up being charged interest on the whole RM10,000.

To give you an idea of how this works, imagine putting RM10,000 into a savings account to earn interest of 5% p.a., being in a flat rate product is like you withdrawing out some money each month but the bank still paying you RM500 interest every year, even if you have almost no money left in the account towards the end!

No bank in the world will do that, so why should you! (in many developed countries, quoting flat rates on loans is illegal).

As a rule of thumb, to compare a flat rate to fixed or variable rate, you have to multiply it by 1.8-1.9x. Hence, a 5% p.a. flat interest rate sounds cheap but in reality, if you wish to compare this rate to say a fixed interest rate on a credit card, you will probably be looking at comparing that 5% p.a. flat rate with a fixed rate of 9.0-9.5% p.a.

5.3.2 FIXED RATE (ON REDUCING BALANCE)

In Malaysia, credit cards products and some mortgages are quoted on a fixed rate basis.

Fixed rates on borrowings are slightly harder to understand and calculate than a flat rate of interest, but they do make more economic sense.

Here, you get charged interest on your reducing loan balance, so, you only pay x% on whatever you currently owe.

For mortgages, the repayment amounts are fixed though, to make things easier for the consumer.

For example:
You apply for a 25-year mortgage of RM500,000 at 5% fixed p.a, with monthly repayments. Your total interest cost is not 5% x RM500,000 x 25 years = RM625,000 as per the flat rate example, your total interest cost is actually closer to RM375,000 over the 25 years as the interest amount reduces as you pay your loan balance off.

The calculation to get RM375,000 is slightly more complicated, but it is certainly lower than the flat rate of 5% p.a. While the interest cost reduces over the tenure of the loan, your repayments are fixed.

A larger portion of your first few fixed repayments go towards interest costs, with the final repayments focused on reducing the principal owed.

5.3.3 VARIABLE RATE (ON REDUCING BALANCE)

A variable rate is frequently used for some home loan (mortgage) products in Malaysia.

As with the fixed rate product, you get charged interest on your reducing loan balance, the main difference here is that you typically get charged a variable rate which can change.

This variable rate is normally benchmarked to the Base Rate (BR) or previously known as Base Lending Rate (BLR) in Malaysia.

Rates are quoted as BR +- x% where the reference rate is normally the BR, a rate is set internally by the bank, but should track the rate set by the Central Bank.

So, if you are quoted a rate of BR – 2.20% on your variable rate loan, your current interest rate is 4.40% p.a. (BR = 6.65% p.a. at time of writing in 2018). If the BLR changes; your interest rate will change too.

For example:
You apply for a 25-year mortgage of RM500,000 at a variable rate of BR – 2.00%. The current BR (at time of writing) is 6.65% p.a., so your interest charge will be 4.65% p.a. on your current balance.

If the BLR does not change for 25 years, then you have effectively gotten a 4.65% p.a. fixed rate mortgage.

This is unlikely to happen, so you can expect to pay less / more than the initial repayment depending on changes in BR.

While variable rates and fixed rates are both applied on the reducing balance of the loan amount, they are hard to compare directly as one is fixed and the other is likely to change over time!

5.4 SECURED VS UNSECURED LOANS

5.4.1 SECURED

A secured loan is essentially a loan where borrowers offer their assets, like a car or a home as a form of security or collateral for the loan.

As such, the cost of borrowing is usually much lower than an unsecured loan. However, borrowers should be wary of their financial capabilities in repaying the loan as they run a risk of getting their security assets repossessed should they fail to pay back the loan.

5.4.2 UNSECURED

An unsecured loan, on the other hand, is usually a bit more difficult to obtain as borrowers do not need to offer any form of assets as security.

Hence, they would need to convince their lenders of their financial strength or creditworthiness. This is to ensure that the borrowers are able to pay back their loan.

With unsecured personal loans, cost of borrowing is higher as the lenders are taking on a higher risk in providing the loan.

Although borrowers do not provide any form of assets to their lenders for their loan, lenders could still take the borrower to court in order to sell his or her assets in order to recover any losses if the borrower defaults on the loan.

5.5 POSSIBLE FEES' PENALTIES

1. ***Early Settlement Penalty***
   Some banks will charge a penalty if you fully repay the loan early (as they will not be earning the interest they expected).

   This fee can vary and can be as much as total interest charged over three months.

2. ***Other Fees:***
   Check the terms and conditions throughout your loan agreement for other fees, such as processing fees, stamp duties and other one-time charges (e.g. brokerage fees).

5.6 ELIGIBILITY CRITERIA

Many lenders have strict eligibility terms, such as age and income requirements. In some cases, you may also have to provide proof of asset ownership and details of other debt liabilities.

5.7 COMMON PERSONAL LOAN TERMS

1. ***Collateral***
   This is an asset that a borrower pledges to the lender in order to secure a loan; and if the loan is not repaid, the borrower would risk losing the asset to the lender.

   In Malaysia, most Islamic Personal Loans do not require collaterals.

2. ***Early Settlement Penalties***
   This is a fee borrower have to pay if he or she decides to repay the full amount of the loan before the end of the agreed repayment period.

   This fee is usually charged as a percentage of the initial loan amount.

3. ***Late Payment Charges***
   A fee charged by the bank if you do not pay your loan installment on time. This is a fee a borrower is obliged to pay if he or she fails to service a loan installment on time.

   Generally, banks charge is 1% p.a., but it may differ from other banks. However, you may be charged more than 1% if you missed your monthly payment.

4. ***Loan/Financing Tenure***
   This refers to the loan period. If a loan has a tenure of 10 years, it means the borrower can take up to 10 years to fully pay off the loan.

5.8 ISLAMIC VS CONVENTIONAL LOANS

Malaysia has one of the most advanced Islamic Finance industries in the world.

Since its initial introduction, Islamic financing products have evolved and matured enough to be comparable to and is just as competitive as other conventional loan packages. But there are some key differences.

5.8.1 CONVENTIONAL FINANCING PRINCIPALS

In conventional financing, lenders lend to borrowers to make a profit from the interest charged on the principal amount.

For property loans, borrowers pay an interest on the outstanding principal amount. Interest rates can be a fixed rate or based on a floating rate (e.g. BLR, KLIBOR).

Payment is made over a set tenure by installments. A portion of each installment paid goes towards servicing the interest, while the remainder goes towards paying down the principal.

Since the contract is not based on an absolute value (e.g. a sale price), the sooner the borrower can pay down the principal, the cheaper the amount of interest paid.

The loan contract for Conventional Financing is known as a Loan Facility agreement.

5.8.2 ISLAMIC FINANCING PRINCIPALS

Islamic Financing avoids interest-based transactions (*riba*) and instead introduces the concept of buying something on the borrower's behalf and selling it back to the borrower at profit.

In place of interest, a profit rate is defined in the contract. Like conventional financing, profit rates can be a fixed rate or based on a floating rate (e.g. BFR).

Most of Islamic home financing options in Malaysia today are based on the Bai Bithamin Ajil (BBA) concept.

A small number of alternatives are based on the Musyarakah Mutanaqisah (MM) concept (which will not be covered in this article).

5.8.2.1 BBA

The principal amount, tenure and profit rate determines the “sale price” and the profit earned by the lender. Like Conventional Financing, payments are deferred over installments.

The loan contract for BBA Islamic Financing is known as a Sale and Buy-Back Agreement.

5.8.3 BENEFITS OF ISLAMIC FINANCING OVER CONVENTIONAL FINANCING

For an indefinite amount of time, there will be 20% stamp duty discount for Islamic Loan Agreement documents.

Note: In conventional financing, there are only 2 legal documents necessary – Facility Agreement and Charge documents.

But for Islamic financing, there are at least 3 (for some products 4), which brings up the total legal costs.

In cases of refinancing from conventional to Islamic packages, there will be a 100% stamp duty waiver on the existing refinance loan balance.

This is not applicable to any amount over and above the existing refinance loan balance.

5.8.4 BENEFITS OF BBA ISLAMIC FINANCING

For floating profit rates, profit rates are capped at a maximum. Conventional floating interest rates have no such cap.

Late settlement of loans can incur lower charges than Conventional loans as there is no concept of compounding interest calculation.

However, in practice, other fees and charges may apply that could offset this benefit.

5.8.5 BENEFITS OF CONVENTIONAL FINANCING OVER ISLAMIC FINANCING

For conventional loans, if a borrower alters the terms of the finance (e.g. increase the facility amount), the Loan Facility Agreement would only need to be up-stamped.

For Islamic financing, a new Sale and Buy-Back agreement (BBA) needs to be drawn up, making it more expensive.

Islamic financing has difficulty in restructuring or refinancing in the case of default.

Your costs for early settlements, late payments or defaults are more transparent in the contract as compared to Islamic financing.

Anyone (not just Muslims) can take up Islamic financing. But if your occupation is not deemed “halal”, there could be difficulty in obtaining the loan.

5.9 WHAT IS GUARANTOR?

A guarantor is someone who provides a bank or lending institution a guarantee that the person borrowing money will repay.

But this isn't just a guarantee in words alone: it means, you are responsible for making sure the bank gets paid, even if it means you have to pay for the loan yourself!

In a nutshell, the guarantor is liable to repay the loan if the bank is unable to collect the amount from the borrower.

The exact details of the guarantee document which a guarantor signs may differ from bank to bank, but the responsibility remains the same.

So, do guarantors have to pay the loan they didn't take? The simple answer is yes. But, you will usually only be liable for the amount when you receive a letter of demand from the bank.

Unfortunately, the bank has the right to demand repayment from you at the same time they demand payment from the borrower.

There is, at the moment no law that forces them to go after the borrower first, unless in select cases of personal loans or if they want to institute bankruptcy proceedings.

Even in such instances, the bank only needs to show that they did do everything they can to contact the borrower and failed.

This sadly also means that if the borrower has defaulted; this record will show up on your credit rating and the only way to clear it is to get the borrower or yourself to pay up the owed amount.

The other step you can attempt is to get the borrower to sign a letter of indemnity for you (if you have not already done this), to ensure that

if he/she should default; you will be able to take legal action against them.

If the borrower is sincere, getting a letter of indemnity should not be a problem even at a later stage, though it is always advisable to get it before you sign the guarantee agreement.

5.9.1 FOR THE WOULD-BE GUARANTOR

If you are thinking of becoming a guarantor for someone, hold up! You'll want to know the following things first.

Here's a list of to-dos' before you sign the dotted line.

Read the contract word for word and if you are unable to understand the legal speak; hire a personal lawyer to explain to you exactly what your liabilities are within the guarantee agreement.

Do not sign anything you do not fully understand.

Ask yourself if you will be able to repay the amount (and if you're willing to repay the amount) should the borrower default.

Sign a letter of indemnity with the borrower to ensure that if they miss a payment, you will be able to institute legal proceedings against them.

Make sure the document contains clear details on your liability and the amount you will be liable for including interest charges. If anything is missing, don't sign.

Never, ever sign a half-finished document!

Being a guarantor means being liable for someone else's loan repayments if they don't pay it, so don't take the request lightly.

Unfortunately, there isn't much shortcut to get out of a guarantee agreement once you've given it so think wisely before committing!

While a conventional personal loan and an Islamic personal loan work via different banking principles, with the latter being Shariah-compliant, the end-results are similar.

From a layman's perspective, both types of personal loans are similar in that the borrower is given access to a fixed amount of money, and in return agrees to pay a monthly repayment amount until the borrowed amount plus any interest amounts are repaid in full.

5.10 TYPE OF CREDIT

Open-End & Closed-End Credit Options

The two basic categories of consumer credit are open-end and closed-end credit.

Open-end credit, better known as revolving credit, can be used repeatedly for purchases that will be paid back monthly, though paying the full amount due every month is not required.

The most common form of revolving credit are credit cards, but home equity loans and home equity lines of credit (HELOC) also fall in this category.

Credit cards are used for daily expenses, such as food, clothing, transportation and small home repairs.

Interest charges are applied when the monthly balance is not paid in full.

The interest rates on credit cards average 15 percent, but can be as low as zero percent (temporary, introductory offers) and as high as 30 percent or more, depending on the consumer's payment history and credit score.

Closed-end credit is used to finance a specific purpose for a specific period of time.

They also are called installment loans because consumers are required to follow a regular payment schedule (usually monthly) that includes interest charges until the principal is paid off.

The interest rate for installment loans varies by lender and is tied closely to the consumer's credit score.

The lending institution can seize the consumer's property as compensation if the consumer defaults on the loan.

Examples of closed-end credit include:

- Mortgages
- Car loans
- Appliance loans
- Payday loans

5.11 TYPE OF LOANS

Loan types vary because each loan has a specific intended use. They can vary by length of time, by how interest rates are calculated, by when payments are due and by a number of other variables.

1. *Student Loans*

Student loans are offered to college students and their families to help cover the cost of higher education.

There are two main types: federal student loans and private student loans.

Federally funded loans are better, as they typically come with lower interest rates and more borrower-friendly repayment terms.

2. *Mortgages*

Mortgages are loans distributed by banks to allow consumers to buy homes they can't pay for upfront.

A mortgage is tied to your home, meaning you risk foreclosure if you fall behind on payments. Mortgages have among the lowest interest rates of all loans.

3. *Car Loans*

Like mortgages, auto loans are tied to your property. They can help you afford a vehicle, but you risk losing the car if you miss payments.

This type of loan may be distributed by a bank or by the car dealership directly, but you should understand that while loans from the dealership may be more convenient, they often carry higher interest rates and ultimately cost more overall.

4. *Personal Loans*

Personal loans can be used for any personal expenses and don't have a designated purpose.

This makes them an attractive option for people with outstanding debts, such as credit card debt, who want to reduce their interest rates by transferring balances.

Like other loans, personal loan terms depend on your credit history.

5. *Payday Loans*

Payday loans are short-term, high-interest loans designed to bridge the gap from one paycheck to the next, used predominantly by repeat borrowers living paycheck to paycheck.

The government strongly discourages consumers from taking out payday loans because of their high costs and interest rates.

6. *Consolidated Loans*

A consolidated loan is meant to simplify your finances. Simply put, a consolidated loan pays off all or several of your outstanding debts, particularly credit card debt.

It means fewer monthly payments and lowers interest rates. Consolidated loans are typically in the form of second mortgages or personal loans.

7. *Borrowing from Friends and Family*

Borrowing money from friends and relatives is an informal type of loan.

This isn't always a good option, as it may strain a relationship. To protect both parties, it's a good idea to sign a basic promissory note.

8. *Cash Advances*

A cash advance is a short-term loan against your credit card. Instead of using the credit card to make a purchase or pay for a service, you bring it to a bank or ATM and receive cash to be used for whatever purpose you need. Cash advances also are available by writing a check to payday lenders.

9. *Home Equity Loans*

If you have equity in your home, the house is worth more than you owe on it and you can use that equity to help pay for big projects.

Home equity loans are good for renovating the house, consolidating credit card debt, paying off student loans and many other worthwhile projects.

Home equity loans and home equity lines of credit (HELOCs) use the borrower's home as a source of collateral so interest rates are considerably lower than credit cards.

The major difference between the two is that a home equity loan has a fixed interest rate and regular monthly payments are

expected, while a HELOC has variable rates and offers a flexible payment schedule.

Home equity loans and HELOCs are used for things like home renovations, credit card debt consolidation, major medical bills, education expenses and retirement income supplements.

They must be repaid in full if the home is sold.

5.12 HOW TO PAY BACK YOUR PERSONAL LOAN

1. ***Be thrifty by reducing your cost of living***

   Being able to save money is the first step to better secure your financial wellbeing by managing your hard-earned money.

   Your savings provide the ability to deal with any emergency, solving them independently and lending help to your loved ones.

   If you can do this gradually, you will end up having money to repay your loan steadily.

   You should start by looking at ways to shop cheaper, getting the right credit cards with rebates, reducing your entertainment budget and make smarter choices in choosing what you need, not all that you want.

2. ***Create budgets and record your expenses***

   If you fail to plan, you plan to fail. While planning, you should start using a finance/budget app with your mobile phone or your laptop.

By recording your expenses and knowing how much you've spent your money on all categories of your lifestyle, you can plan better for next month by creating budgets for each category.

This will ultimately lead you to reduce your cost of living and plan for next month by studying your past expenses monthly.

JagaMyID

Protect Your Credit Health

Provides you peace of mind knowing your identity is safe and you are in control of your own credit health.

For example, by having these records on your finance/budget app, you can foresee all the yearly charges for your car insurance, medical card renewal, fire insurance, property assessment tax and many more.

You also can rely on setting up recurring charges on your finance or budget app, so you know how to plan and prepare to pay for these extra expenses.

3. ***Avoid this common mistake, only opt for full settlement with rebate***

   Car and personal loans offer flat interest. Therefore, you pay interest on the entire loan balance throughout the duration of the loan.

So, it makes sense that you don't pay extra each month or shorten your repayment period as this is the common mistake we all usually do because you won't be saving anything on interest charges.

But if you have enough money in your savings to settle your loan balance all at once, then you should use the car and personal loan settlement calculator to calculate how much rebate you can get from this settlement.

Although it's a complex calculation, our calculator simplifies it with a mortgage or FD interest rate savings for your full settlement by percentage.

So, you'll be able to consider this with the actual figures and decide carefully, after all the rebate you'll get should make you feel good and proud of finishing off your personal loan!

5.13 CONCLUSION

If you’re willing to make adjustments wisely, you’ll be able to pay back your personal loan.

As a matter of fact, you’ll become a better planner with such experience for your future financial management.

6.0 CHOICES OF THE NEW ECONOMIC REALITIES

BUYING OR RENTING A HOUSE, BUYING A NEW OR USED CAR

The younger generation of today has to answer an important question.

The answer isn't so easy. The common wisdom for decades was to buy a house as soon as you can because it's a potentially great investment.

That "wisdom" turned lots of people upside down in the past decade. Let's take a cold, hard look at the economics of owning a home.

In the past, the own-or-rent decision was about whether to live in a house or apartment. That's no longer true.

Condos allow ownership of a multi-family residence, and the opportunities to rent a stand-alone house are greater than ever before.

So, the own-rent decision should be apples-to-apples with comparable properties.

If you are thinking about moving from a small apartment and buying a medium sized house, you'll find that it's more expensive simply because you're getting more square footage and a yard.

Is housing still a good investment? Since 1975, housing has appreciated by an average of 4.5 percent per year (Good data start in 1975.)

Estimates of housing appreciation since 1890 (courtesy of Robert Shiller) show 3.0 percent annual increases in nominal value, and just a hair above zero after adjusting for inflation.

Stocks, on the other hand, have a long-run average return of 9.8 percent including dividends.

Housing seems to be a great investment in good times because it is usually leveraged to a great degree.

With a 20 percent down payment, a price increase of just three percent turns into a 15 percent increase in the homeowner's equity. (Do some arithmetic with a hypothetical RM100,000 home to verify that result.)

Real estate proponents call this the "cash-on-cash" return. However, leverage applies to the downside as well.

With 20 percent down, a 20 percent price decline wipes out all of the buyer's equity. That's not an outlandish scenario, we've learned from the price declines of the recent housing bust.

Interest on home mortgages is deductible, which sounds good but is frequently overrated. Yes, it's deductible. But the deductibility doesn't offset the fact that you are paying someone interest.

It's an expense, and you are worse off because of it. If you want a big tax deduction, you could make a contribution to charity.

You'll end up with less money than before your contribution despite the deduction. The same is true for interest expense. It may be worthwhile, all things considered, but it's still an expense.

Talk to your accountant first, because the actual benefit from a deduction varies from family to family.

The housing-stock market comparison ignores a key point: housing pays something like a dividend in that you can live in it without paying rent.

To be as good as stocks (on average), the benefit of living in a house has to pay an “occupancy dividend” of about seven percent.

So, if you’re thinking of a RM200,000 home, you need to get RM14,000 per year of benefit from living in it.

That’s comparable to RM1,167 of monthly rent before we get around to the pesky details.

When you rent, the landlord picks up the taxes, insurance, maintenance and sometimes utilities.

If you buy, plan on replacing the water heater some years, the back fence other years, the roof occasionally. Hope that you don’t need to replace all of them the same year.

If you are going to hire out all of the maintenance, you’ll probably pay more than your landlord does. The landlord is in the business of maintaining properties and is probably very efficient.

However, if you can do some of it yourself, your cash outlays will be much less than the landlords.

And you can do it yourself if you're willing to learn. Try Googling “leaky faucet” and you’ll find plenty of advice.

Most people thinking about buying compare monthly payments to rent, which is a good starting point.

However, some of that monthly payment goes to principal. It's like saving.

To put buying on a level playing field with renting, look at just the part of the monthly payment that will go to interest.

Example:

You borrow RM200,000 house with a 30-year mortgage at 4.25 percent. Your monthly payment would be RM993, but RM285 of that would be going to principal.

Your parents will be surprised that you're paying so much to the principal. When they got their first mortgage, rates were much higher and only a small portion of their payments went to the principal.

Transaction costs are large in housing. Real estate agents charge six to seven percent commission on sales, which will make moving expensive.

You can sell the house yourself, but keep in mind that it's a lot of work and your house may not be exposed to as many buyers, reducing the price you can get for it.

This argues against buying unless you are confident you want to stay in the house for several years, preferably even longer.

Renters should keep in mind that they do not control their housing destiny. If the landlord decides to sell the property, you'll be looking for a new home.

The landlord can also raise the rent at the end of the lease. The landlord can also decide not to rent to you, though that's rare for people who are well behaved.

One of the benefits of owning a house is the ability to do with it what you want (subject to neighborhood rules, of course).

When your daughter wants her bedroom walls black, you can be the cool parents who show her how to use a paint roller.

You can build that gazebo in the backyard and have toilets in any color of the rainbow.

Owning a house gives you some flexibility, but also requires flexibility. When you get a bonus from work, you can upgrade your housing by adding a hot tub.

Renters don’t have that option. When you lose your job, you can defer replacing the carpet.

Flexibility is required of you, too. When the roof starts to leak, there’s no telling the rain that this is a bad time.

You need to have reserves for unplanned repairs.

So now you’re ready for the economist to give you a conclusion. However, there are too many emotional factors for a mathematical solution.

I recommend running the numbers as best you can, then asking yourself if the physical benefits are worth the cost.

Dear Two Cents,

I'm out of debt, and I'm now saving for a down payment on a home. It's always been my dream to be a homeowner.

But lately, I read a lot of arguments against it in favor of renting. How do I know if it's a good idea for me? Should I buy or keep renting?

Sincerely,
Hopeful Homeowner

Dear HH,

For a long time, conventional wisdom seemed to be that you grow up and buy a home because that's just what you do.

But lately, people are realizing that it isn't always the smartest financial move.

Obviously, the housing crisis has a lot to do with that—it's made people question the standard assumption that homeownership equals financial stability.

6.1 FIVE THINGS I WISH I HAD KNOWN BEFORE I BOUGHT A HOUSE

Homeownership isn't a good or bad idea on its own. It has everything to do with your own situation.

Sometimes, buying a home is the smart thing to do; other times, it really isn't.

Whether or not it's smart for you will depend on a few different factors. Here's what you should keep in mind.

6.2 DON'T THINK OF A HOME AS YOUR MAIN INVESTMENT

The biggest argument for owning a home is that it's an "investment." But a lot of people overestimate the return on this investment.

People tend to believe that homes are appreciating assets, but this isn't always true.

Yale economist and Nobel prize winner Robert Shiller debates this topic openly, having crunched the numbers.

He says that, overall, the housing market doesn't have a great long-term return. It barely outpaces inflation, in fact.

He told USA Today:
"If you look at the history of the housing market, it hasn't been a good provider of capital gains.

It is a provider of housing services...Capital gains have not even been positive. From 1890 to 1990, real inflation-corrected home prices were virtually unchanged."

The Washington Post analyzed Shiller's data and reported that, over the past 100 years, home prices have only grown at a compound annual rate of 0.3%, adjusted for inflation.

The S&P 500, on the other hand, has had an annual return of 6.5%. That's an awfully big difference.

While that single real estate asset might help protect you against inflation, a well-balanced stock and bond portfolio seems to be a better investment.

But a lot of people's portfolios are mostly made up of their home value. You wouldn't put 80 percent of your portfolio in a bond simply to protect against inflation (unless maybe you were nearing retirement) so why would your home make up that same amount?

That's the argument against buying a home as an investment. As Forbes contributor Jamie Hopkins says:

"When making the decision it is important to understand that buying a home might not be a great financial investment and to not forgo all of your investable assets in order to purchase a home because you are really purchasing a right to housing and not a long-term investment designed to generate income.

You might still be able to time the housing market just right and sell at a higher rate than Shiller's data shows. But most experts agree: while housing is an investment, it's not a great investment.

So, if this is your only basis for buying a home, it's probably not the best one."

6.3 DECIDE HOW MUCH YOU CAN AFFORD

In deciding whether you can afford to buy, you'll have to figure out how much a home you're planning on buying in the first place.

One rule of thumb for figuring out this number: your home monthly instalment should cost no more than 2.5 times your salary.

Of course, this just gives you a ballpark figure. It doesn't consider your net worth.

Corey Fick of 20s Finances six factors for calculating a better amount of home you can afford:

1. Take-home pay (after taxes, after tax-deferred retirement contributions)
2. All of your other debt (consumer/credit card, student loans, auto, etc.) and monthly payments.

   He notes that if you have high-interest loans, you should pay them down before looking to buy a home.
3. Consider your other priorities (children, retirement)
4. Calculate your down payment amount. It might make more sense to save and wait.
5. Use a mortgage calculator to see how much you can afford but add in the estimates for the above costs.
6. Leave a cushion in your monthly budget between income and total monthly expenses.

Once you know the number you're working with, you'll have a better idea of whether or not buying a home is a smart financial move for you.

6.4 WEIGH THE OPPORTUNITY COST OF RENTING VS BUYING

While your home might not be the best investment, in the end, it's still *yours*.

Even if it barely outpaces inflation, at the end of the day, you own it, and that's worth something.

When you rent, you own nothing—the money is given to someone else.

So, lots of people argue that you should own a home because one day, you'll pay that home off and it'll be yours, rather than continuing to pay rent for the rest of your life.

This argument touches on *opportunity cost*: the value of an option you're giving up to choose something else.

If you choose to rent, you're missing out on owning an asset. Even if it doesn't outpace inflation, who cares?

You have an asset—a house—to show for all your money.

But it's not that simple. You also have to consider the opportunity cost of buying. There's the down payment. The mortgage interest payments.

What's the opportunity cost of those? How much could you earn by investing that money in the broad market, instead?

6.5 WATCH OUT FOR THESE CLOSING COSTS WHEN BUYING A HOME

On average, closing costs make up two to five percent of the purchase price of a home.

Sometimes, you can actually earn more money over time by renting and investing than buying. But whether or not this is true depends on a few factors:

- **Your rent cost**:
  If your rent is cheaper than your mortgage, you may be able to invest the difference and earn a better return, long-term.

- **Down payment & mortgage interest rate:**
  Same story here. If you invested RM50,000 instead of using it for a down payment, and also invested the amount you paid in interest over time, how much more would you have in the long term? In some cases, you'd have more than the value of your home.

- **Where you live**:
  The housing market depends on many factors and changes, but where you live is a big one. Your rent prices and home prices may be a lot different than the national averages.

Considering the recurring costs and the opportunity costs, it tells you at what price point you'll save money, long-term, by buying rather than renting.

In this example, that price point is RM1,363 vs. a RM200,000 home. Renting anything under RM1363 will earn you more money in 20 years than buying a home. It also accounts for inflation and rent increases.

6.6 CONSIDER YOUR TOTAL NET WORTH

Many experts say your home should only be between 20-40% of your net worth.

Here's the asset breakdown finance site Financial Samurai recommends for new homebuyers:

- Real estate (your new home): 40%

- Stocks: 50%
- Risk-free investments (CDs, Money Market accounts): 10%

Over time, you'll ideally have less invested in real estate to grow your portfolio, but that percentage will rise again as you near retirement.

It's a general guideline that will depend on other factors (like age and risk level).

As we've said, the point is: your home should not be your main asset.

You shouldn't give up your entire savings, especially your retirement savings, just to become a homeowner.

Ideally, your home should not be your main asset—it should only make up 20-40% of your total net worth.

If that sounds unreasonable, you should, at the very least, have a healthy emergency fund saved before buying a home.

You should also prepare savings for other expenses that inevitably pop up—maintenance, decorations, improvements.

6.7 AVOID BEING "HOUSE POOR"

We've talked about following the 20 percent rule. It's a very general rule of thumb that says you shouldn't buy a home until you can afford a 20% down payment.

The case for following the rule is:

- You won't have to pay Private Mortgage Insurance
- You borrow less, so your mortgage payments are smaller

- You usually pay a lower interest rate (or, at the very least, will pay less in interest in the long run because you'll have a smaller loan)
- It ensures you can truly afford the home

But some argue that it's overkill and 20% is too much to put toward a home. The argument against this rule is:

- In some areas, homes are so expensive, no one can afford to put that much down.
- It makes more sense to put less down and invest the difference.
- It's too much of your net worth to give up at once. You don't want to be house poor.

Twenty percent down or not, the concern about being house poor is a valid one.

You don't want all of your net worth to be tied up in your home, and that's essentially what being house poor is—when you can't afford to make ends meet because you've spent everything on a house.

For the first and last point, one might argue that you should simply continue renting and saving until you *can* afford to put down 20 percent (and still pay your monthly expenses with ease).

Don't forego financial basics and buy a house for emotional reasons, or because it's expected of you.

Buying a home is an exciting life milestone, but it can also be intimidating.

Obviously, you should have enough, after your down payment, to cover your mortgage and monthly expenses.

But beyond simply making ends meet, you want to make sure you're financially secure, too. This is why it's important to consider your net worth.

Whatever guideline you use to decide if you can afford a house or not, the takeaway is the same: it's usually better to rent than it is to be house poor.

The risk of living hand-to-mouth isn't worth it.

Of course, beyond the money factors, you also want to consider your long-term goals.

If there's good chance you'll sell the home in five years, it's probably cheaper to rent (the rental calculator will most likely tell you the same).

Maybe you'll move for a job. Maybe you'll want a bigger home for a family. Your own individual milestones should play a part in your decision.

Ultimately, buying a home is a personal choice you'll have to weigh, considering your own circumstances.

Homeownership is not inherently a smart or dumb decision—it depends a lot on individual factors and where you're at financially.

But these considerations should at least put you in the right direction.

Good luck!

7.0 GETTING OUT OF THE DEBT JAIL!

The current consumption led society has caused many Malaysians to be entangled in debt.

In a study recently, it was revealed that 70 percent of Malaysians has trouble in coming out with RM1,000 for an emergency.

The crux of the problem is that many people are living beyond their means. The ease in getting a credit card and access to illegal money lenders has exacerbated the problem.

The following are some ways you can stay out of the debt trap and live within your means:

1. ***Get rid of the credit card***
   Credit cards are extremely tempting, and with the high interest, they can be downright dangerous.

   It is possible to use them wisely and even profit from using them.

   The interest rate at 18 percent is too high and many people just manage to pay the minimum instead of paying the entire sum that they have charged on their credit cards.

2. ***Get rid of non-essential expenses***
   This might seem extreme to many people, but remember cable TV, most of eating out, going to the movies (except on rare occasions), alcohol, cigarettes buying new clothes (except when really needed), etc. are expenses that we can do without.

3. ***Prepare a budget and stick to it***
   Create a spending plan because it conjures images of creating a plan to achieve a goal, taking action, and doing something about your problems, figure out how much you make, and consciously decide how you want to spend it this month.

   You have to decide where your money is going to go before you actually spend it.

4. ***Cash and online bill payments***
   It's better to make payments online as you can track them for monitoring purposes. This will be a systematic way of maintaining a spending plan.

5. ***The emergency funds***
   Unexpected medical bill? Home repair? Car repairs? Need to travel to see your sick relative?

   These things will have to be paid for somehow, and if you don't have an emergency fund, you'll either go into debt to pay for them, or you'll sacrifice your debt repayment for this month to pay for it.

   Without an emergency fund, it's almost impossible to get out of debt.

6. ***The debt repayment plan***
   Plan to tackle the debt with the highest interest as it will 'snowball' into your other debts.

7. ***Debt is my first bill***
   The priority is managing your money will be debts first, savings second and paying your bills last.

8. ***Rewards***
   You have to reward yourself when you settle a debt. This keeps the motivation for prudent financial planning.

9. ***Increased income***
   Besides spending less and living more frugally, you can also increase your income to make your financial situation more stable and to accelerate debt repayment.

10. ***More increased income***
    With the increased income mentioned in the item above, you will be in a much better situation financially. That will give you the courage to look for more.

    Always look for new ways to pursue your dreams and your passion and to increase your income.

7.1 WHY LIVING FRUGALLY IS ONLY PART OF THE SOLUTION

But frugal living is only one component. You have to learn to get your finances under control, and to plan your spending and to create an emergency fund.

You have to learn how to motivate yourself to finish the long journey.

And one of the most important steps, as mentioned above, was increasing your income in multiple ways, in a series of steps designed to get your finances in better shape and to pay off debt faster.

Living frugally should be the first thing you do. It is vitally important.

But it’s only a part of the equation — spending less only gets you part of the way. Earning more gets you the rest of the way.

The key is to find something you’re passionate about and pursue that with all of your heart.

That might mean educating yourself and learning new skills. That might mean finding mentors and starting at the bottom.

But when you’re passionate about something, you’re more motivated to learn and to succeed. Really pour yourself into it, and you’ll find a way.

It’s also important to seek new opportunities and don’t let good ones get away. If the opportunity doesn’t work out, well, drop it.

But at least you gave it a shot. And who knows? One or more of those opportunities might turn into pure gold.

7.2 WHAT’s NEXT: MY CREDIT-FREE PLAN

Debt is a dangerous game. Some people can succeed at it. The rest of us can’t.

Getting out of debt has been like shedding a load of boulders from one’s back.

7.3 INCOME IS NOT WEALTH

Most people believe the key to wealth is a high-paying job.

Yes, it's easier to amass assets if you have more money coming in each month, but the true secret to increasing your net worth is to spend less than you make.

It is a cliché; but it is the fundamental, absolute, non-negotiable reality of money. To escape this trap, you need to understand that income is not wealth.

What is wealth? Wealth is the part of your net worth (assets minus liabilities) that generates capital gains, income, and dividends.

If you are a Doctor or Lawyer, you need to put in long hours after years of specialty training and higher education to get a paycheck.

On the other hand, if you have a portfolio of private businesses, car washes, parking garages, stocks, bonds, mutual funds, real estate, patents, trademarks, and other cash generators, you could sit by the pool.

The real value, of course, is that you could maintain your lifestyle even if you were disabled or unable to continue working at your primary occupation.

Better yet, unlike a salaried employee, wealth can't fire you — you have to squander it.

The level of your wealth should be measured by the length of time you could maintain your standard of living without an additional paycheck.

In other words, if you had to stop working right now, how long could you keep up your purchasing pattern for cars, clothing, music lessons, college tuition, video games, etc.?

The average person isn't educated in this truth, which is why the more and more they earn, they are left wondering why financial independence and security continue to elude them, always seemingly just out of grasp.

- ***You Must Have Surplus Funds to Invest***
  Amassing wealth and becoming financially independent is a slow process that takes time.

  You do small things every day such as cut your expenses, generate extra income and put the money into brokerage and tax-deferred retirement accounts.

  With time, it begins to amount to something. As each new opportunity appears, you can react on a larger scale than your previous investments. That's called the compounding factor.

  It's when the interest, dividends, and capital gain your money has earned begin to generate their own interest, dividends, and capital gains, and on and on in a virtuous cycle.

  It's how RM10,000 can grow to RM2,890,000 over 50 years at 12 percent.

  The only way you can have more money left over at the end of the month is to either increase revenue (your paycheck, business sales, billable hours, or whatever it is that provides funds to cover your bills) or decrease costs.

  That's it. Write it down. Frame it. It's that remarkable.

Your choices are to increase revenue, cut costs, or both.

- ***True Wealth Is Your Time***
  How do you know when you are truly wealthy? When you have complete control over how you spend your day.

  No matter how much money you make unless your days are spent doing the things the really make you happy.

  The things that you enjoy so much that you would pay to do them and you have control over your time, you aren't wealthy.

  According to decades of extensive research by Thomas J. Stanley, Ph.D., author of *The Millionaire Next Door*, the grades one earns in school have no correlation with the economic wealth and success other than in the medical and legal professions.

  That's not to say education isn't important — it is! More than 90 percent of American millionaires did, in fact, graduate with an undergraduate degree.

- ***Financial Independence Takes A Complementary Spouse***
  No matter how successful you are, unless your spouse is equally disciplined, frugal, and investment-oriented, your efforts toward a better, financially independent life are going to be like struggling in quicksand.

  Marry the wrong person and the emotional, financial, and social toll it can take on your life will overwhelm almost any progress you can make in your career or pocketbook.

As you try to build a life, he or she will be out spending your money on status symbols, making it nearly impossible for you to achieve financial independence.

- ***Niche Markets Aren't Glamorous – But They Are Lucrative***
  Billionaire investor Charlie Munger has remarked that entrepreneurs can thrive if they specialize in an overlooked economic niche, much like animals in nature.

  Often, these niches are extremely lucrative but not likely to win you friends at cocktail parties.

  Don't believe me? Quick! Conjure up images of a multi-millionaire.

  What do you see? High-tech 20-somethings on a yacht? Molecular biologists?

  Although there are a few, most of the big money is in industries such as waste management (garbage), pizza, clothing stores, trailer parks, candles, and shipping.

  Consider the case of Sam Walton. He built a tiny dime store from the corner of Arkansas into the biggest retailer in the world, amassing a family fortune of more than UD125 billion.

  There's nothing sexy about selling fifty-cent flip-flops and bottles of cheap cologne in small towns but Walton was on a mission to bring affordable goods to everyday Americans.

He was a man possessed with vision. He built his company one store at a time — one might even say one checkout at a time — with no fanfare or red-carpet walks.

Business owners represent a disproportionately large segment of the millionaire population.

It's hard to believe, but there's a good chance that the biggest hardware store owner or plumber in your town has a net worth many times that of your highest-paid doctor.

Part of the reason is a concept called capitalized earnings.

Doctors are pressured to buy status symbols to convince their patients they are successful. Not the plumber. He can put more money into his retirement accounts.

Over decades, the result is millions in additional wealth for the guy who unclogged toilets instead of arteries. That's not something you learn about in school.

8.0 SMART SPENDING HABIT

Understanding your spending can come down to establishing a few smart habits.

According to Thomas C. Corley in a conclusion of his research on hundreds of self-made millionaires Change Your Habits, Change Your Life, "Habits are the cause of wealth, poverty, happiness, sadness, stress, good relationships, bad relationships, good health, or bad health."

Below are simple spending habits that you can adapt to make your life easier:

1. ***Automating your finances***

   If your financial plan isn't on auto-pilot, change that as soon as possible.

   Automating your finances meaning that sending your money automatically to investment accounts, savings accounts, and creditors and believe it or not, it allows you to build wealth effortlessly.

   With this, you will never forget the payment again and you will never be tempted to spare on savings as you will not even see how the money is going directly from your paycheck to your savings accounts.

   How can you do it? You can simply link your accounts, so that money from your checking account to your savings account and set up the exact day you want to make transfers.

   In addition, it will help you to never make a late payment again because automation frees up your valuable time and allows you

to focus on your life, rather than spending time worrying about whether you have paid that bill or not or if you're going to overdraft again.

2. ***Invest your spare change***
   For your information, investing is one of the most effective ways to build your wealth even you don't have a lot of money.

   The key takeaway is, start investing sooner rather than later to take full advantage of compound interest.

   The phenomenon of compounding can transform a relatively small but consistent amount of saving into major wealth.

3. **Ditch the small and daily purchases**
   Did you know that eliminating your RM10 daily coffee could help you save quite a bit of money over time?

   Just as you can put your spare change to work, you can also put this money to work.

   An RM10 daily coffee amounts to about RM70 a week, or RM300 a month.

   Start by determining your daily purchases, cut back on that expense, and direct the money towards an investment account.

   Like the financial advisor suggests: "We all throw away too much of our hard-earned money on unnecessary little expenditures without realizing how much they can add up to."

4. ***Come up with specific money goals***

   The number one reason most people don't get what they want is that they don't know what they want which is why rich people are totally clear that they want wealth.

   To reach that level of clarity, it is advisable that you write down goals for your annual income and net worth.

   Like all goal-setting, you have to be realistic, but don't be afraid to challenge yourself. After all, the wealthiest people are never afraid to think big and work towards it.

5. ***Save, don't spend the surprise cash***

   Let’s pretend that your extra money, such as a bonus, birthday check or any windfall, doesn't exist.

   Get in the habit of putting any surprise cash, even if it's just that RM20 bill you found in your coat pocket, to work.

   It is also applicable to your student loans, debt, your emergency fund, or an investment account. It'll eventually add up.

   Plus, creating this habit earlier on will help you avoid lifestyle inflation when you get more surprise cash in the form of a raise.

6. ***Tell yourself you deserve to be rich***

   Most of the wealthy individuals believe that success, fulfillment and happiness are the natural order of existence.

   This single belief drives the great ones to behave in ways that virtually guarantee their success.

On the flip side, the average earner remains average because they expect it to.

The masses think they aren't worthy of great wealth. Who am I to become a millionaire? They ask themselves.

Why not try asking yourself, "Why not me?" After all, that's what the millionaires and billionaires always do.

7. ***Spend 30 minutes a day reading***

   Rich people tend to read because they continue to teach and invest in themselves long after formal education is over.

   For example, try walking into a wealthy person's home and one of the first things you'll see is an extensive library of books they have used to educate themselves on how to become more successful.

   If it works for the millionaires and billionaires, it could work for you too!

8. ***Set your alarm clock earlier***

   Besides reading, wealthy people also tend to wake up early.

   For instance, self-made billionaires Richard Branson and Jack Dorsey start their days at 5:00 am, and they're far from the only successful people to get up before the sun.

   Author Thomas C. Corley found in a five-year study of hundreds of self-made millionaires that, nearly 50 percent of them woke up at least three hours before their workday actually began.

We can't guarantee that joining the early bird club will make you rich, but it won't hurt trying and it will almost certainly make you more productive.

9. ***Surround yourself with successful or high-earners***

   Successful people generally agree that consciousness is contagious and that exposure to people who are more successful has the potential to expand your thinking and propel your income.

   We will likely become like the people we associate with, and that's why winners are attracted to winners.

   Looking for a new crew to roll with? Consider joining a high-end tennis, golf, health, or business club.

   If there's no way you can afford to join a high-end club, have coffee or tea in the classiest hotel in your city.

   When you get comfortable in this atmosphere, watch the patrons, they will notice that they are no different from you.

10. ***Track your spending***

    You can't build wealth if more money is leaving your wallet than coming in. To ensure you're earning more than you're spending, track your daily expenses.

    There are a handful of apps that will do this for you, such as Spending Tracker, Personal Capital, and Level Money.

You can also use a spreadsheet on your computer or simply record your everyday purchases in a notebook or on your phone.

Perhaps you'll find another small and daily expenses that you can cut back on.

11. *Prioritize high-interest debt*

It is important to note that all debt is not created equal. An effective strategy for you to try is to rank all of your debt in order of interest rate, from highest to lowest.

Then, prioritize the debt with the highest interest rate, while still paying the minimum on all of your debts in order to pay less over the lifespan of your loans.

There is also an alternate option, where you can rank your debt in order of size and start with the smallest.

The idea is that each time you pay off one form of debt, you will build momentum which helps you tackle the next biggest, and so on.

The important thing is that you get out of the red as quickly as possible. After all, it's hard to start building wealth if you're not debt free.

8.1 SMART SPENDING HABIT CHECKLIST

- [x] Spend less than you earn
- [x] Boost your earning capacity
- [x] Save for future spending
- [x] Grow your money
- [x] Only borrow what you can afford
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